

RETIREMENT



By the numbers

- According to recent studies, an average 65-year-old couple will need approximately **\$220,000** to cover their annual medical expenses through 20 years of retirement.¹ 62% of that total will be picked up by Medicare.²
- Out-of-pocket health care expenses are estimated to be **13%** of a Medicare beneficiary's income, but the majority of Americans underestimate what they will be spending on health care when they retire.³ When you develop a financial strategy with your advisor, you should be sure to factor in health care costs.

¹ Source: "Health-Care Costs for Retired Couples Drop by 8 Percent," CNBC, 5/15/13.

² Source: "Amount of Savings Needed for Health Expenses for People Eligible for Medicare: Some Rare Good News," EBRI Notes, 10/13.

³ Source: "Rx for Health-Care Costs in Retirement," CNBC, 4/12/13.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

FACING THE COMPLEXITIES OF MEDICARE

There is no denying it: Medicare is a complicated insurance program that beneficiaries often find as challenging as it is helpful. It is important to use a guide when trying to navigate the Medicare program. This Medicare "map" gives you an overview of what to expect, as well as the steps you can take to help ensure that you access all the benefits to which you are entitled.

This information sheet offers an overview of Medicare. It provides information on health plan options, eligibility, enrollment and costs. It also includes useful tips about coverage. Ask your financial advisor for additional literature on ways to fill gaps in Medicare coverage and special programs for people with limited incomes.

Who is eligible?

You are eligible for Medicare if you meet one or more of the following requirements:

- You are 65 or older and eligible for Social Security or Railroad Retirement benefits.
- You are 65 or older, a current US resident and either a US citizen or a permanent resident who has lived in the US for five continuous years before applying for Medicare.

- You have been receiving Social Security disability income (SSDI) for at least 24 months.
- You qualify for disability insurance because of ALS (Lou Gehrig's disease).
- You have end-stage renal disease (ESRD), also known as kidney failure, and you, your spouse or your parent has paid Medicare taxes for a sufficient amount of time.

If you are eligible for Social Security retirement benefits but do not take them at age 65, or if you continue working after age 65, you can still receive Medicare benefits. If you are not eligible for Social Security or Railroad Retirement benefits, you are eligible for Medicare if you meet residency and citizenship requirements, but you must pay Part A premiums.

Key points

- Understanding the basics of Medicare A, B and D will help you take necessary steps on schedule. It will also help you deal with problems in the system when you must.
- Begin the enrollment process in advance of your sixty-fifth birthday, or immediately after any other qualifying event, in order to become eligible for benefits as soon as possible.
- Always find out whether providers take assignment, and insist that doctors, pharmacists, nursing homes and other vendors bill Medicare directly to make certain that you pay minimum copays or other out-of-pocket costs.

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How much you pay for Part A depends on your or your spouse's work history (how long you paid Medicare taxes while working).

How Medicare works

Medicare is the federal health insurance program available to older Americans and many individuals with disabilities, regardless of income.

Medicare is divided into three parts: Part A, Part B and Part D. Medicare Part A covers in-patient hospital, skilled nursing facility, home health and hospice services. Medicare Part B covers almost all reasonable and necessary outpatient medical services, including physicians' services, outpatient hospital care, durable medical equipment, laboratory tests, X-rays, therapy, mental health and ambulance services. Medicare Part D is the outpatient prescription drug benefit available only through Medicare private drug plans or Medicare Advantage plans that include drug coverage.

Part C of Medicare is the part of Medicare law that allows Medicare private health plans (also known as Medicare Advantage plans) to provide all three benefits (Parts A, B, and D) to a beneficiary. Medicare Advantage plans contract with Medicare and are paid a fixed amount to provide Medicare benefits. The most common types are Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs). A beneficiary with a Medicare Advantage plan still has Medicare. His or her Medicare is just administered in a different way.

People with Medicare can choose how they want their Medicare administered. You have two choices:

1. Stay with Original Medicare. With Original Medicare, you will have Parts A and B provided to you by the federal government. If you want Medicare prescription drug coverage, you should enroll in a standalone Part D plan (PDP).
2. Enroll in a Medicare Advantage plan. With a Medicare Advantage plan, you will have Parts A, B and D provided to you by one private health plan. You generally must get health and drug coverage from the same Medicare Advantage plan.

How and when to enroll

For most people, enrollment in Original Medicare is automatic and does not require an application.

If you are turning 65 and already get Social Security retirement or Railroad Retirement benefits, enrollment is automatic.

If you are under age 65 and receive SSDI, you are automatically enrolled in Medicare during the twenty-fifth month you receive SSDI. If you are under 65 and have ALS, you are automatically enrolled in Medicare the first month you receive SSDI or, if you are a railroad worker, a railroad disability annuity check.

You need to actively enroll in Medicare and file an application with your Social Security or Railroad Retirement Board office if, for example,

- you qualify for Social Security retirement or Railroad Retirement benefits but are not receiving them when you turn 65.
- you do not qualify for Social Security retirement or Railroad Retirement benefits because of an insufficient work history but you qualify to purchase Part A.
- you qualify for Medicare because you have end-stage renal disease (ESRD) and you, your spouse or your parent has a sufficient work history.

You can enroll or be enrolled in Medicare during three periods:

1. General enrollment

If you are eligible for Medicare and miss your initial enrollment period (described below), you can enroll between January 1 and March 31 of each year, but you may pay a penalty for late enrollment. If you apply during the general enrollment period, your Medicare coverage starts on July 1 of the year you enroll.

2. Initial enrollment

If you are turning 65, you can file an enrollment application with your local Social Security office during the seven-month period surrounding the month of your sixty-fifth birthday. This period includes the three months before your birthday month, your birthday month and the three months after your birthday month. If you are under 65 and are eligible for Medicare due to disability, you should be enrolled in Medicare Parts A and B automatically. Your Medicare will begin on the first day of the twenty-fifth month of receiving SSDI or Railroad Retirement disability benefits. If your twenty-fifth month is approaching and you have not received anything in the mail from Medicare, call Social Security at 1-800-772-1213 to confirm your enrollment.

3. Special enrollment

If you or your spouse has coverage under an employer group health plan (GHP) because you are currently employed, you can enroll in Medicare at any time while you are covered by the GHP. If you or your spouse ends your GHP coverage or

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stops working, you have a special eight-month enrollment period that begins when you lose the GHP coverage or stop working, whichever comes first. If you still get coverage from a former employer after you retire, it is considered retiree coverage and is secondary to Medicare. This means that Medicare pays first, so it is important to sign up for Medicare.

If you do not enroll in Medicare Part B when you are initially eligible, you may have to pay a 10% premium penalty for each 12-month period you delay your enrollment (unless you had employer insurance through your or your spouse's current job). For example, if you were eligible for Medicare Part B at age 65 but enrolled in Medicare five years later, when you were 70, you would pay a 50% penalty.

Coverage and costs

Medicare Parts A and B cover most reasonable and necessary health care costs. Medicare Part D covers a portion of most outpatient prescription drugs as well.

However, Medicare does not cover routine dental services or most custodial or long-term nursing home care (care for activities of daily living, such as bathing, dressing and preparing meals). Medicare also does not cover most care outside of the United States, acupuncture, hearing aids and most eye care.

Medicare Advantage plans must cover all of the services that Medicare covers, but can do so with different costs and restrictions. In some cases, Medicare Advantage plans will cover some of the services Original Medicare does not cover. Ask the plan directly about how services are covered and get as much information as you can in writing.

Medicare coverage tips

Medicare covers most health care services that you and your doctor think you need. If you get a service and Medicare denies coverage, you can challenge the denial through the appeals process.

If you have questions about Medicare, you can get free help from your State Health Insurance Assistance Program (SHIP). You can get the number for your SHIP by calling 1-800-MEDICARE or find information online at www.SHIPtalk.org.

It is always a good idea to ask doctors whether they take Medicare assignment. Doctors who take assignment have to accept the Medicare-approved amount as payment in full. Original Medicare will pay the doctor 80% of its approved amount for services covered under Part B, and you are responsible only for the remaining 20%. Doctors who do

not take assignment can charge you up to 15% more than Medicare's approved amount.

Most doctors accept Medicare. Doctors do not have to treat Medicare patients, but if they do, they are legally bound to file claims with Medicare and to charge no more than state and federal laws permit.

Medicare Part A costs

Most people get Medicare Part A for free. Your Part A premium is free if

- you are 65 or older and eligible for Social Security or Railroad Retirement benefits
- you have received Social Security disability income for at least 24 months
- you qualify for disability insurance because of ALS
- you have end-stage renal disease and have sufficient work history

If you or your spouse has worked 40 quarters (10 years) or more, you are eligible for Social Security retirement benefits, and you do not have to pay the Part A premium. In 2014, if you have worked between 30 and 39 quarters, your Part A premium is \$234 per month. If you have worked less than 30 quarters, the premium is \$426 per month. In both cases, there may be a surcharge for delayed enrollment. Call Social Security for information (1-800-772-1213) or visit www.ssa.gov.

Medicare Part B costs and coverage

Everyone pays a monthly premium for Medicare Part B. In 2014, the standard Part B premium is \$104.90 per month.

Medicare covers most Part B services at 80% of the Medicare-approved amount. You are responsible for the remaining 20% of the cost of the covered service. This 20% is called a coinsurance. For example, if the Medicare-approved amount for a doctor's visit is \$100, Medicare will pay the doctor \$80, and you will pay coinsurance of \$20.

You can purchase a supplemental plan called a Medigap plan to pay for the costs associated with Original Medicare. Medigap plans only work with Original Medicare, not Medicare Advantage plans. Contact your SHIP or call 1-800-MEDICARE for information on enrolling in Medigaps.

Medicare Advantage plans usually charge a standardized copayment for services covered under Part B.

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People with higher incomes pay a higher Part B premium. If your income is above \$85,000 for an individual or \$170,000 for a couple, you pay more for Part B each month.

Remember, you will have to pay a higher Part B premium if you did not enroll in the benefit when you first became eligible or after you lost coverage from an employer.

If you have limited income, you may qualify for a Medicare Savings Program (MSP), the state-based benefit that pays the monthly Part B premium. You can find out more about the MSP by calling your State Health Insurance Assistance Program. You can get the number for your SHIP by calling 1-800-MEDICARE or find information online at www.SHIPtalk.org.

Medicare Part D costs, coverage and enrollment

Medicare recipients can get prescription drug coverage through Medicare Part D. This coverage is available only through Medicare private drug plans. Most people must actively sign up if they want this coverage.

Enrollment in the benefit is optional for most people (although the vast majority of people with both Medicare and Medicaid must get their drug coverage this way). Whether Medicare drug coverage will help you depends on your current drug coverage and drug needs. If you have other drug coverage, you should check with your plan to see how it will coordinate with Medicare.

You can enroll in a Medicare Part D plan (or a Medicare Advantage plan) when you first become eligible for Medicare and enroll in Medicare Parts A or B. You can usually enroll in or change prescription drug plans only during Fall Open Enrollment, which occurs from October 15 to December 7 of each year.

If your current drug coverage is as good as or better than Medicare's (coverage that is considered creditable), you can keep it without penalty and do not have to enroll in Medicare Part D. If you do not have drug coverage as good as Medicare's and do not enroll when you are first eligible, you may pay a penalty if you enroll later. Find out from your coverage provider — your employer or union, for example — whether your drug coverage is creditable.

If you have retiree or union drug coverage, enrolling in Part D could cause you or your family members to lose access to that coverage. Contact your former employer or union's benefit administrator to ask how the plan coordinates with Medicare before enrolling in Part D.

Each plan (Medicare Advantage plan or standalone Part D plan) has different costs, a different list of drugs that it covers and different pharmacies in its network. Before enrolling in or changing drug coverage, contact the plan that you are considering and ask how it will cover your drugs, how much each drug will cost and what pharmacies in your area are in the plan's network. Get as much information as you can in writing.

Each plan member pays a monthly plan premium. The national average plan premium for Medicare Part D is \$32.42.

As with Part B, people with higher incomes pay a higher Part D premium. If your income is above \$85,000 for an individual or \$170,000 for a couple, you pay more for Part D each month.

If you have a limited income, you may qualify for Extra Help — federal assistance that can help pay for most of the costs of the Medicare drug benefit. You can get an application for Extra Help by calling Social Security at 1-800-772-1213 or by visiting www.ssa.gov.

You should ask your financial advisor for additional literature on ways to fill gaps in Medicare coverage and special programs for people with limited incomes.

Adapted from the 2014 publication *Facing the Complexities of Medicare*, created by the Medicare Rights Center. Used with permission.

Resources

www.medicare.gov

www.medicareinteractive.org

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