

THE A, B, C and D's of Medicare

In this second of 2 articles, parts C and D are explained.

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In last month's column we focused on Medicare Parts A and B, which were the original components of Medicare established in 1965. Over time the program was expanded, first in 1997 with establishment of Medicare Advantage (Part C) and later in 2003 with the prescription drug benefit (Part D).

Unlike parts A and B, these programs along with Medical Supplemental Insurance, otherwise known as Medigap, are administered by private companies that have been approved by Medicare. As a result there is more choice involved in these plans. In fact, there are a myriad of different choices available that can differ as to cost and coverage, so it's critical to understand how each plan works.

MEDICARE PART D

The Medicare prescription drug benefit is called Medicare Part D. This coverage is sold by private companies that contract with the federal government, but premiums may be deducted from your Social Security check.

The national base premium in 2024 is \$34.70, although your actual premium depends on the plan you choose, with a range from \$1 (for low-income enrollees) to \$195, with the average monthly premium in 2024 projected

to be roughly \$56. Similar to Part B, those with higher incomes will pay an additional premium for Part D Medicare prescription-drug coverage (see chart below).

As with Part B, this cost is based on your modified adjusted gross income (MAGI) from two years prior. Thus your 2024 premium is based on your 2022 MAGI.

THE 'DONUT HOLE'

Between \$545 and \$5,030, you'll pay a small copay or coinsurance amount, which varies depending on the drug and the plan. For costs above \$5,030, you'll pay no more than 25% of your drug costs until you reach \$8,000 in out-of-pocket spending.

This gap in coverage is popularly known as the "donut hole," although this gap has been greatly reduced in recent years. In the past, your share of the cost might have reached as high as 100% in this range. However, legislative changes last decade reduced these costs, and the government declared the hole "closed" in 2020. Even so, your costs may be higher in this zone as you are paying up to 25% of your drugs' cost. After that point, Medicare will cover about 95% of any additional drug costs. Each available Medicare prescription-drug plan must offer benefits that meet or exceed this standard.

Note that for purposes of calculating the donut hole threshold, nearly the full price of the drug is counted as your out-of-pocket spending, including the amount paid by your plan.

Additional Part D Premiums for Prescription Drug Coverage, Based on Adjusted Higher Incomes

Individuals	Couples	Additional Part D Monthly Premium
\$103,001 - \$129,000	\$206,001 - \$258,000	\$12.90
\$129,001 - \$161,000	\$258,001 - \$322,000	33.30
\$161,001 - \$193,000	\$322,001 - \$386,000	53.80
\$193,001 - \$499,999	\$386,001 - \$749,999	74.20
\$500,000 and above	\$750,000 and above	81.00

Part D coverage is sold by private companies that contract with the federal government, but premiums may be deducted from your Social Security check.



ENROLLING IN PART D

For 2024, there are 21 standalone Part D plans and another 36 Medicare Advantage drug plans (*more on this below*). Not every plan is offered in every state. Each plan has its own list of drugs covered, called a formulary, with two choices in each commonly prescribed drug category. Thus while all plans cover the same categories, the specific drugs can differ from plan to plan.

When signing up for Part D it's important to check your drugs against the plan's formulary before you sign up. You can do this on the Medicare website by entering your drug information and preferred pharmacies to determine which plans cover your medications and whether there are any limitations.

Medicare's online Drug Plan Finder will estimate annual out-of-pocket costs for all the plans available to you. Phone numbers and links for each insurance company are shown so that you can contact them directly to confirm that you understand the benefits as well as the costs.

Enrollment in Medicare Part D is optional, but if you don't enroll during your initial enrollment period, you may have to pay a premium penalty of 1% of the base beneficiary premium (\$34.70) per month if you choose to enroll later.

If you have health care coverage from a current or former employer that continues to cover prescription drugs, you can keep it and choose not to buy Medicare Part D. Then if you later decide to drop the prescription drug benefit from your employer's plan, you may be able to enroll in Medicare Part D coverage without penalty under certain conditions.

If you have an existing Medigap insurance policy that provides prescription drug benefits and you'd like to keep it, you'll be able to do so as long as you opt out of the Medicare Part D prescription drug benefit; see the discussion of Medigap plans below.

Note that joining a Medicare drug plan may affect your Medicare Advantage Plan (Part C). If your Medicare Advantage Plan (Part C) includes prescription drug coverage and you join a Medicare Prescription Drug Plan (Part D), you'll be removed from your Medicare Advantage Plan and returned to original Medicare.

MEDICARE ADVANTAGE (PART C)

These plans include Medicare health maintenance organizations (HMOs), preferred provider organizations (PPOs) and other organizations, which are private companies paid by the federal government to provide individuals with Medicare health benefits.

Some plans offer additional benefits, such as dental and vision care, which are generally not covered under Medicare. Plans incorporate Part A and Part B coverage and usually Part D coverage as well. You're generally covered only for care provided by a doctor or hospital in the organization's network. Out-of-pocket costs may be low as long as you use the provider's network. If you use a Medicare Advantage plan, you probably don't need to enroll in a Medigap plan.



MEDIGAP

Medigap insurance (also called Medicare Supplemental Insurance) is provided by insurance companies specifically to cover what Medicare doesn't cover. When you enroll in Medicare Part B and you're age 65 or older, you have a six-month open enrollment period in which to buy a Medigap policy. During this enrollment period, you can't be denied coverage because of any current or prior health problems as long as you've had continuous health insurance coverage for the six months before enrolling. If you had a break in coverage of less than 63 days, you'll still qualify.

Medigap policies are guaranteed renewable as long as you continue to pay your premiums. Some states allow you to purchase Medigap insurance outside the six-month enrollment period. Check with your state insurance commissioner for more information.

ENROLLING IN MEDIGAP

If you continue to work past age 65 and don't yet need to purchase a Medigap policy because you're still covered under your employer's group health care plan, you can delay enrollment in Medicare Part B so that your six-month open enrollment period for a Medigap policy doesn't expire before you're ready to apply. Once you do plan to retire, you should apply for Medicare Part B as well as a Medigap policy unless your group retiree health insurance adequately supplements Medicare. This should be accomplished before your employee health insurance coverage ends.

A variety of Medigap policies are available. There are 10 standardized plans labeled A, B, C, D, F, G, K, L, M and N.

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CEO of San Francisco-headquartered Stock Alarm. “You’ve got to figure out why you’re putting your money into the market in the first place,” he said.

“Are you saving up for something big, like kicking back in retirement or buying your dream house? Your end goal is super important because it decides the kind of investment path you’ll take.

“For example, if you’re all about that dream of chilling out by the beach when you retire, look at stocks or mutual funds that have the potential to grow over the long haul. But if you’ve got a shorter-term goal, like buying a new car in a couple of years, then you’re better off playing it safe with investments like bonds. It’s all about matching your investment choices with what you’re trying to achieve.”

Your goals, timeline and risk profile are all essential components of your Investment Policy Statement, Johnson said.

“One of the most important functions of a financial advisor is working with clients to establish an Investment Policy Statement (IPS),” he said.

“An IPS is a written document that clearly sets out a client’s return objectives and risk tolerance over that client’s relevant time horizon, along with applicable constraints such as liquidity needs and tax circumstances. In essence, an IPS sets out the ground rules of

the investment process. It is the document that guides the investment plan. Included in that IPS is a target asset allocation. The IPS should include a glide path for target asset allocation as the individual ages. All investors should have an IPS.”

GAUGING PROGRESS

Comprehending and pinpointing goals, deciding on the acceptable risk level and determining a timetable for your investment journey are all critical steps in financial planning, said Hazel Secco, president and founder of Align Financial Solutions LLC in Hoboken, N.J.

“Without these measures, it becomes challenging to gauge progress toward goals and retirement,” she added.

“A lack of clear objectives can easily lead to financial detours. Even if two individuals earn identical incomes, their vastly different lifestyles can significantly impact their finances over a decade. The absence of defined goals makes it impossible to assess the soundness of financial decisions or the efficiency of one’s financial strategy.

“Identifying priorities, whether it’s family, business growth or early retirement is paramount. These qualitative aspects form essential steps in financial planning for beginner investors, guiding them towards informed, strategic decision-making.”

FINANCIAL PLANNER

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The Plan A is the most basic and G is the most comprehensive (Plan F is only available to those eligible for Medicare prior to January 2020). Plans K, L, M and N offer differing intermediate levels of coverage.

Every insurer must sell the basic A coverage, which picks up most out-of-pocket co-payments for hospital charges and doctor bills. Policies K and L are newer and are designed primarily to cover catastrophic expenses. You can find a comparison chart illustrating the benefits of each plan on Medicare’s website.

Price is the only difference between plans with the same letter sold in different states or by different insurance companies. Within each letter, coverage is identical. The price increases as the benefits between plans increase and the rates between insurance companies differ, so comparison shopping is necessary. We recommend comparing the Medigap coverage offered by three different companies. Once you have selected a company and you’ve paid the initial premium, you have 30 days to receive a full refund if you change your mind.

Note: Plans in Massachusetts, Minnesota and Wisconsin have different structures than the rest of the country.

FOR MORE INFORMATION

As you can tell from this explanation, selecting the right coverage for your particular situation is complicated! For more information about Medicare and Medigap insur-

ance, the Medicare website is a comprehensive resource. But with a wealth of information comes the potential for information overload. If your health situation is complex, we recommend you get expert advice. In addition to the Medicare help line, we suggest you consult your financial adviser to get help in planning for the cost of Medicare premiums, and who may even refer you to a professional who specializes in helping navigate the Medicare system and can put together a plan for you that best suits your medical needs.

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