Money Unscripted | **What is Medicare?**

**ALLY DONNELLY:** Medicare-- what you need to know and how to avoid costly mistakes. Hi, I'm Ally Donnelly, and this is Money Unscripted, Fidelity's personal finance podcast. Today, we're answering your top Medicare questions in under 10 minutes.

Ryann, thanks for being here.

**RYANN LITTLE:** Thank you so much for having me.

**ALLY:** So, big picture, what is Medicare?

**RYANN:** Yes. So starting there, Medicare is a federal health insurance program. It was developed for people age 65 and up, but also for younger people with certain disabilities or certain health conditions. It's also really important to note that, when it comes to Medicare, it's very individual. It's only you on that plan, so no more spousal coverage or family coverage.

**ALLY:** There are alphabet soup of Medicare, four different parts, from Part A through part D.

**RYANN:** Yes.

**ALLY:** Let's break them down. And why don't we start with Part A?

**RYANN:** So original Medicare, Part A, is hospital insurance. So it covers items like inpatient hospital care, skilled nursing, hospice care, and in certain situations, home health care.

**ALLY:** OK, OK.

**RYANN:** Now, original Medicare Part B, that is medical coverage that covers items such as outpatient services or visiting your doctor's office or your primary care physician, for example.

**ALLY:** All right. Let's talk through A and B. What costs could I expect there?
**RYANN:** Yes, a simple question, no simple answer there.

**ALLY**: Oh, OK.

**RYANN:** So generally speaking, original Medicare Part A and B each have associated monthly premiums. They each have deductibles or maybe co-pays and coinsurance. However, when it comes to Part A, most people don't have to pay monthly premiums for Part A.
Now, conversely, Part B-- Part B has a premium that most everyone is going to pay. That starts at about $200 this year. It could vary year by year. But it also can be up to $600 in some cases for folks with higher income.

**ALLY**: Like you said, Medicare doesn't cover everything. So let's talk about our other options to pay those health care costs.

**RYANN:** So this additional coverage comes in kind of two different paths. So the first path is selecting a Medicare Supplement plan, also known as Medigap, along with a Part D prescription drug coverage. That's kind of a bundle plan. The other path that you could select is a Medicare Advantage plan that's also known as a Part C plan, sometimes referred to as an all-in-one type of plan.

**ALLY:** OK. So what type of person might they be good for?

**RYANN**: So Medicare Advantage plans might be a good fit for those who want a lower monthly premium and are comfortable paying co-pays and co-insurance as they go, as they utilize those medical services. They might be comfortable seeking

care within a defined provider network, and also for those who want prescription drug coverage and extra benefits included all in one plan.

**ALLY:** All right. Then what's a Medicare supplemental or supplement plan?

**RYANN:** Sure. So a Medicare Supplement, also known as Medigap, along with a Part D prescription drug combination, those plans come secondary to Medicare. So you have to have original Medicare in place before you enroll into a Medicare Supplement or a Part D plan.

**ALLY:** And who might think perhaps that's the path for them?

**RYANN:** Medicare Supplement plans may be good for people who are comfortable paying higher monthly premiums, to limit out-of-pocket spending on coinsurance and co-pays, want the freedom to access doctors and hospitals throughout the United States as long as they accept Medicare. And they're willing to buy those extra benefits, like dental and vision, separately.

**ALLY:** OK. Talk to me about avoiding what some people have found to be really costly Medicare mistakes.

**RYANN:** The most common mistakes I see is, first, missing those specific enrollment time frames that are unique to you. That could result in penalties, financial penalties. It could result in a gap of coverage. So it's just really important to know your time frames. Secondly, when it comes to prescription drug coverage, you have to be covered on some type of qualified prescription drug coverage, even if you're not currently taking any medications.
If you miss your enrollment time frame, you could face lifelong financial penalties, and that penalty is pretty stout. So what they do is they will take the number of months that you went without coverage and multiply that 1% of the National average for that year and however many months you went. So, for example, if you were without prescription drug coverage for five years, let's say-- that's 60 months-- they're

going to penalize you 60% for every month that went by that you were not covered on top of what you're paying for your prescription drug plan.

**ALLY:** Oh.

**RYANN:** There's no cap on it.

**ALLY:** Wow, OK. Ryann, we mentioned earlier that the cost of Medicare varies depending on your income. Map that out for me.

**RYANN**: So, for example, when you sign up for your Medicare Part B, Social Security is
going to take a look at your tax returns from two years prior.

**ALLY:** Just two years?

**RYANN:** Just two years at that moment in time. And then, based on a calculation of your modified adjusted gross income-- the acronym for that is MAGI-- they're going to determine if you have to pay an additional surcharge on top of the base monthly premium for Part B that everybody pays. That surcharge is known as the Income-Related Monthly Adjustment Amount or IRMAA for short.

**ALLY:** When do I enroll in Medicare?

**RYANN:** So upon your 65th birthday, most people are going to utilize their initial enrollment period or their IEP to enroll into Medicare. That's a seven-month window-- three months before your 65th birthday month, then your birthday month, and then three months after. So you can utilize that time frame to enroll into Medicare.
Now, again, if you are someone who is going to continue to work past the age of 65 and you're going to stay on your creditable group health insurance coverage, then you will actually utilize a special enrollment period when you come off of that group plan that helps you avoid any late enrollment penalties down the road.

**ALLY:** Do I need to revisit my plan once I've made it?

**RYANN**: Emphatically, yes. You should do that. So take advantage of Medicare's annual enrollment period. It happens every year, October 15 through December 7. Especially if you're enrolled into a Medicare Advantage plan or a prescription drug plan, you want to review your plan and make sure that it fits your needs at the lowest cost possible.

**ALLY:** OK, and how do I enroll?

**RYANN:** So first, when you're first transitioning to Medicare, Social Security facilitates Medicare Part A and Part B. So you're going to enroll into Part A and Part B through Social Security. Some people might be automatically enrolled if you're already taking retirement benefits at that moment in time.
But as far as the additional coverage that we discussed, the Medicare Supplement plans, the prescription drug plans, the Advantage plans, those are all plans that you could seek help on your own through Medicare.gov, through the various insurance carriers or using a broker.

**ALLY:** We have definitely given people a lot to consider. If they're walking away from this conversation, you really want them to remember key points. What would those be?

**RYANN:** So first, know your enrollment time frames. Each person's time frame could be a little bit different depending on their unique circumstances. But do the research, plan ahead so you are avoiding those possible penalties or missteps. Secondly, I would say ask a lot of questions. Find a trusted resource to gather that information so you can plan ahead, and know what's coming at you, and why Medicare is so different from what you're used to in health insurance.
And lastly, review your coverage annually. This is so, so important for people to remember. Medicare's annual enrollment period is a prime time to do that because

your plans could change, the cost could change, and you don't want to be on a plan that doesn't meet your needs.

**ALLY:** If you're looking for a deeper dive, we have another episode for you to check out. We talk with three women about their own personal experiences with Medicare. You'll hear about Medicare brokers and learn more ways to navigate the complexities of the program. Be sure to like, subscribe, or share the podcast, and we'll see you next time on Money Unscripted. It's your life. Get your money's worth.
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