

Decoding Medicare



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Medicare can be a very confusing topic. There are different terms and letters that mean different things, and at times it even has its own language. When these challenges combine with the big concern of trying to figure out exactly when you should enroll, even trusted advisors trying to help you make this important decision can seem like they are speaking in code. So, let's decode Medicare.

Original Medicare

What is Original Medicare?

Original Medicare is the official health care program provided by the US government. It is broken into two distinct sections, Part A and Part B.

Part A is generally referred to as hospital insurance, though it does cover more than just going to the hospital. Medicare Part A covers:

- Inpatient hospitalizations¹
- Skilled nursing care facilities
- Hospice
- Inpatient nursing care (not long-term care or custodial care)²
- Some home health services

Generally, Part A is premium-free, meaning you typically will not encounter monthly fees, but there will be deductibles and copayments for the above services.

Medicare Part B is regularly referred to as medical or doctors insurance. Part B covers a wide variety of health needs, including:

- Preventative services (e.g., screening procedures, shots, vaccines)
- Services from doctors and other health care providers, including urgent care
- Visits to the emergency room
- Durable medical equipment (e.g., canes, walkers, wheelchairs, hospital beds)
- Limited outpatient medications
- Some clinical research
- Ambulance services

Part B does require monthly premiums. Depending on your level of income, you may also have higher monthly premiums called "IRMAAs," or Income-Related Monthly Adjustment Amounts. To learn more about IRMAAs, see MFS' "Get to Know IRMAA: A Key Factor in Medicare Costs."

Through your Part B coverage, on top of the monthly premiums, you will encounter additional costs, including an annual deductible and copays, which are normally 20% of the cost of treatment.³

¹ This means you were officially admitted as an inpatient, not just in the emergency room or overnight for observation, as examples.

² Medicare Part A does not cover custodial care if that is the only care needed, nor long-term care facilities

³ Some doctors may charge more than the Medicare-approved cost; they may charge up to 15% more.

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Additional Insurance

Once enrolled in Medicare Parts A and B, you may choose additional insurance from private companies. For most individuals, there are two paths to follow: Medicare Advantage/Part C, or a Gap/Supplement plan.⁴

What is a Medicare Advantage plan?

A Medicare Advantage plan (also known as a Part C plan) is a private alternative to Original Medicare. You will still need to be enrolled in both Medicare Parts A and B to select a Medicare Advantage plan, but following that, it would effectively become your health care coverage.

Advantage/Part C plans have both a Part A (hospital) and Part B (doctors) component. They may also offer additional benefits, which can include creditable prescription medication plans, dental, vision, and hearing coverage, and a variety of other features that typically differ from one plan to another.

The two main types of Advantage/Part C plans are Paid Provider Organization (PPO) plans, which offer both in- and out-of-network coverage, and Health Maintenance Organization (HMO) plans, which typically have much more defined in-network coverage.

There will be deductibles and copayments/coinsurance that are specific to whichever plan you choose.

To see a specialist, you may need a referral from your doctor. Some services or procedures may also require “prior authorization,” which means the insurance company must review and approve the care before it is scheduled with a doctor within the plan’s network. While Advantage/Part C plans may not have additional premiums, you will still be responsible for paying your Part B premium (including any IRMAA increases).

⁴ If you have other insurance options, such as Federal Employees Health Benefits, TRICARE for Life, Veterans Affairs, or retiree benefits through a company, union, or other organization, you may have other considerations.

⁵ The states of Massachusetts, Minnesota, and Wisconsin have their own state-specific plans.

⁶ Some states have varying rules around this timeframe. Please verify your specific state’s rules.

What is a Gap/Supplement plan?

As the name suggests, Gap/Supplement plans fill in the gaps of what Original Medicare does not cover, supplementing your care options. These plans work in partnership with Original Medicare. Again, you will need to enroll in both Medicare Parts A and B before you can choose a Gap/Supplement (“Medigap”) plan.

If you choose this option, you will have to pay an additional premium.

Nationwide, there are several Medigap plans that each have their own distinct letter (e.g., Medigap Plan G, Medigap Plan N, etc).⁵ Each one will help pay for costs normally associated with Medicare, and some offer extra benefits. Depending on what you choose, these plans may cover a Part A hospital deductible or a Part B copayment, among other costs. They could also include foreign travel exchange (up to plan limits) or cover extra blood needed during a procedure, for example.

Gap/Supplement plans do not include medication plans, nor do they offer routine dental, vision, or hearing coverage. Referrals and pre-authorizations may also be limited to the plan’s defined network.

Many states guarantee a six-month “right of issuance” enrollment timeframe (also known as the Medigap Open Enrollment Period) in which you can choose a Gap/Supplement plan after you enroll in Medicare Part B. This means the policy you elect will be issued regardless of any pre-existing medical conditions you may have. Outside of this six-month period, however, you may have to undergo medical underwriting, which can cause an increase in premiums or even a denial.⁶

What is a Part D plan?

Medicare Part D plans cover prescription medications. When you are age 65 or older and retired, the government requires that you have “creditable” drug coverage. A Part D plan could satisfy this requirement and help you avoid possible penalties.

Each Part D plan has its own unique formulary, which is a list of medications the plan will help cover and pay for. Each plan may also have a different network of pharmacies.

Separate premiums are required for Part D plans in addition to a deductible and copays/coinsurance for medications. There are also IRMAAs for higher-income individuals with Part D plans.

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Timing

When should I enroll?

If you do not sign up for Medicare at the appropriate time, you may be subject to a late-enrollment penalty. It's important to ensure you have the right coverage at the proper time to avoid these penalties. Use the chart below to understand the different enrollment periods based on your current situation.

SITUATION	ENROLLMENT PERIOD	TIMING	CAN ENROLL / MAKE CHANGES	KEY CONSIDERATION	DISCUSS WITH YOUR ADVISOR
"I'm turning 65 soon and do not have coverage through my employer or my spouse's employer."	Initial Enrollment Period (IEP)	7-month window: starts 3 months before your 65th birthday month, includes that month, and extends 3 months after.	Medicare Parts A and B; Part D Prescription Drug Plan; Medicare Advantage/Part C; Medicare Supplement or Gap Plan.	Coverage timing depends on when the client enrolls. If the client enrolls in the 3 months before their birth month, coverage starts the first day of the birth month; otherwise, it starts the first day of the month after enrollment.	Map out your 65th birth month and identify your enrollment window so key deadlines don't get missed.
"I'm still working past 65 and have employer coverage."	Special Enrollment Period (SEP)	Begins when work-based coverage is lost or employment ends, whichever comes first, and extends 8 months after. Can also be used before losing coverage to coordinate a Medicare start date.	Medicare Parts A and B (if delayed); Part D Prescription Drug Plan; Medicare Advantage/Part C; Medicare Supplement or Gap Plan.	COBRA and retiree benefits do not qualify as "creditable insurance." If SEP overlaps with IEP, follow IEP rules.	Confirm whether your employer coverage is creditable and plan the Medicare transition before that coverage ends.
"I missed my initial window and don't qualify for SEP."	General Enrollment Period (GEP)	January 1 through March 31 each year.	Medicare Parts A and B (used only if you missed the IEP and are not eligible for SEP).	Medicare Part A coverage starts January 1; Part B coverage starts the following month. Late enrollment penalties may apply.	May have late enrollment penalties or increased costs
"I already have Medicare and want to review coverage for next year."	Annual Enrollment Period (AEP)	October 15 through December 7 each year.	Change from Parts A and B to Medicare Advantage/Part C; switch Medicare Advantage plans; join or switch Part D plans; change plans or insurers.	Changes take effect January 1.	This is the annual check-in to review whether your current plan still fits your needs for the year ahead.
"I'm already in a Medicare Advantage plan and want a one-time change."	Medicare Advantage Open Enrollment	January 1 through March 31 each year.	One-time change to a different Medicare Advantage/Part C plan, with or without prescription drug coverage; change to Parts A and B; enroll in standalone Part D.	Review Annual Benefit Notification for provider network, prescription drug coverage, and maximum out-of-pocket coverage changes.	If your Medicare Advantage plan no longer fits, this is a limited opportunity to make one change.

To dive deeper into these enrollment periods, refer to MFS' "The Whats and Whens of Medicare Eligibility and Enrollment."

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Next Steps

Trying to understand Medicare plans on your own can be like reading an encoded message — a lot of components, multiple names for the same things, and even seemingly random letters. While we've helped decode that message, you still have a lot of decisions to make about the future, particularly as you approach age 65 and near retirement. When to enroll in Medicare and what plans to choose are both complicated decisions. To determine what's best for you and your family and to understand how Medicare costs will impact your retirement income — including Social Security — consider consulting with your financial advisor, investment professional, and local Medicare specialists.

Glossary

Medicare Plan Types

Medicare Part A: In-Patient hospital insurance/coverage, also often referred to as 'premium-free Medicare'

Medicare Part B: Out-patient insurance/coverage, often referred to as doctors or medical insurance

Original Medicare: Medicare Parts A & B

Medicare Part C: Also called a Medicare Advantage plan. This is a private insurance alternative to Medicare. Offered through private insurers.

Part D: Prescription medication plans. Offered through private insurers.

Gap/Supplement plan: May be referred to as a Medigap plan. These are other insurance plans that work alongside Original Medicare to help pay for doctors visits and procedures and may have additional benefits. Offered through private insurers.

Key Medicare Terminology

Annual Enrollment Period (AEP): October 15 through December 7, each year. This may also be called the Medicare Open Enrollment Period, the Annual Election Period, or the Open Enrollment Period. The time period in which those with Medicare Advantage/Part C plans and Medicare Part D plans can review coverage and elect new plans to take effect the following year.

Annual Notice of Change (ANOC): A document that is provided by insurers for those with Advantage/Part C and Part D plans that outlines any changes in the plans. This must be provided by the end of September, prior to the Annual Enrollment Period. Also known as an annual benefit notice.

Key Medicare Terminology (cont.)

Coinurance: A percentage paid for a service or medication.

Copay: A dollar value for a service or medication.

Deductible: An out-of-pocket cost that must be met before insurance assists with payment.

Formulary: The list of medications a Part D plan will cover and help pay for.

General Enrollment Period (GEP): January 1 through March 31, every year. An enrollment option for those that miss their IEP or SEP.

IRMAA: Income-Related Monthly Adjustment Amount. Those with a higher Modified Adjusted Gross Income (MAGI) in retirement may have a higher Part B premium and an additional amount added to their Part D premium.

Initial Enrollment Period (IEP): The first chance someone has to enroll in Medicare, a 7-month period that includes 3 months before turning 65, the month turning 65 and the 3 months following.

Medical underwriting: A process used to determine pre-existing health conditions. May be used if someone exceeds their 6-month guaranteed right of issuance for a Gap/Supplement plan following enrollment in Part B.

Prior authorization: May also be called pre-authorization. A process through which individuals on Advantage/Part C plans and (in some cases) on Gap/Supplement plans receive approval from their insurers prior to undergoing medical procedures.

Special Enrollment Period (SEP): An alternative chance to enroll into Medicare for those who previously had coverage through their own or a spouse's workplace-based insurance.

Contact your financial advisor or investment professional for more information or visit mfs.com.

Sources: Medicare.gov

For more information and answers to your questions about Medicare visit medicare.gov.

For informational purposes only. Each person's situation is different. For help determining what role Medicare will play in your financial future, work closely with your financial advisor, or investment professional and local Medicare specialist. They will provide the perspective you need to help you build and maintain a retirement strategy that may work best for you. MFS® does not provide tax, legal, accounting, Social Security, or Medicare advice. Clients of MFS should obtain their own independent tax and legal advice based on their particular circumstances.