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Medicare Basics ...

Those of us in our middle to later years have lived nearly our entire lives in the Medicare era. The original Medicare law, which was enacted by Congress and signed by President Lyndon B. Johnson on July 30, 1965, included two parts: Part A (hospital insurance) and Part B (medical insurance). Those two parts, which will be explained in greater detail below, have cleverly come to be known as “Original Medicare.”

In the years since the passage of the law, Medicare has become a fixture in our country with over 62 million Americans relying upon this vital program for their health care. Despite a general familiarity with Medicare, most Americans don’t fully understand what it is or how it works. Although this brief article doesn’t adequately address the many complexities of Medicare, it should give the reader a basic understanding of the program and how it operates in conjunction with various Medicare Supplement (*i.e.*, Medigap) insurance policies and Medicare Advantage plans. Much of the information I have presented in this article comes from two publications offered by the Centers for Medicare & Medicaid Services (“CMS”): (1) *Medicare & You – The Official U.S. Government Medicare Handbook (2022)* ([medicare.gov/media/10991](https://www.medicare.gov/media/10991)); and (2) *Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare (2021)* ([medicare.gov/media/9486](https://www.medicare.gov/media/9486)). If you would like a free copy of this publication, you can contact me or you can download one directly from the CMS website.

What is Medicare?

Medicare is the federal insurance program that provides health insurance to: (a) people age 65 or older; (b) people under age 65 with certain disabilities; and (c) people of any age with end-stage renal disease (“ESRD”) (permanent kidney failure requiring dialysis or a kidney transplant).

What are the various components of Medicare?

• **Part A (Hospital Insurance)** – Medicare Part A helps cover inpatient hospital care, skilled nursing facilities, hospice, and home health care. When Medicare Part A is coupled with Medicare Part B, the coverage is known as “Original Medicare” in contrast to Medicare Advantage (Part C) plans which are described in greater detail below. There is a Part A deductible (\$1,556 in 2022), which is covered by all Medigap plans, and most people get Medicare Part A coverage for free.

• **Part B (Medical Insurance)** – Medicare Part B helps cover services from doctors and other health care providers, hospital outpatient care, durable medical equipment, and home health care. It also covers many preventive services, screenings, and immunizations. Medicare Part B does not, however, include coverage for prescription drugs which are covered under Part D of Medicare (see below). There is a Medicare Part B deductible (\$233 in 2022) and there is a monthly premium for Medicare Part B that varies based on income. The standard Medicare Part B premium amount in 2022 is \$170.10 per month, but wealthier seniors will pay more (up to \$578.30 per month in 2022).

• **Part C (Medicare Advantage)** – Medicare Part C is also known as Medicare Advantage. This part of Medicare is a substitute for Original Medicare and is run by private insurance companies rather than the government. It includes all benefits and services covered under Part A and Part B, and it usually includes coverage for prescriptions drugs (Part D). Medicare Advantage plans often include other benefits and services (some at no additional cost) (*e.g.*, fitness center access, *SilverSneakers* programs, dental care, eyeglasses, and wellness programs). In exchange for the additional benefits, Medicare Advantage participants must generally accept restrictive provider access or other coverage limitations and must pay a copayment or coinsurance every time they visit a doctor. Most Medicare Advantage plans require a monthly premium in addition to the Medicare Part B premium that is paid to the government; however, some Medicare Advantage plans pay all or part of the Part B premium.

• **Part D (Prescription Drug Coverage)** – Medicare Part D is the prescription drug part of Medicare. It is run by Medicare-approved private insurance companies, and it helps cover the cost of outpatient prescription drugs. There are two ways to get prescription drug coverage under Medicare Part D: (1) a stand-alone plan that offers a separate prescription drug plan (“PDP”) which is available to individuals who are entitled to Medicare benefits; and (2) a Medicare Advantage prescription drug plan (“MA-PD”) that covers prescription drugs as part of the Medicare Advantage (Part C) coverage. Stand-alone drug plans help pay for outpatient prescription drugs and vaccines (subject to deductibles, coinsurance and/or co-payment amounts). Medicare Advantage drug plans integrate prescription drug coverage and coordinate care and costs with other Medicare benefits into one plan.

Medicare Part D drug plans are allowed to have a deductible (up to \$480 in 2022), and although Medicare drug plans no longer have a “donut hole” during which time the member is responsible to pay 100% of the drug costs, they do still have a “coverage gap” (from \$4,430 spent on covered drugs (but not premiums) to \$7,050 spent in 2022) during which time the member is responsible to pay up to 25% of the cost of the drug. Once you are out of the coverage gap, you are only responsible to pay a small

coinsurance of about 5% or a copayment for drugs for the rest of the year. Most Part D drug plans charge a fairly reasonable premium (but some are free). As is the case with Medicare Part B coverage, those with higher income will pay a surcharge on top of the Part D premium. Also, it is very important that seniors not delay enrolling in a Medicare Part D prescription drug plan since Medicare assesses a permanent premium load of 1% per month for each month an individual was eligible but went without creditable prescription drug coverage. In 2021, that permanent monthly penalty was equal to \$0.33 multiplied by the number of uncovered months.

What's the difference between Medicare and Medicaid?

Medicare is an insurance program that is run by the federal government. It provides health insurance coverage for people who are at least age 65 and for certain disabled individuals who are younger than 65. In contrast, Medicaid is an insurance program that is run jointly by the federal government and various state governments, and it provides long-term medical and custodial care coverage to low-income individuals and families.

What are Medicare Supplement (aka Medigap) insurance policies?

Medigap policies are health insurance policies that are sold by private insurance companies to supplement or fill in the gaps of Original Medicare coverage. Medigap policies can help pay an enrollee's share of the costs of Medicare-covered services like coinsurance amounts, copayments, or deductibles. In order to purchase a Medigap plan, the applicant must be enrolled in Medicare Part A and Part B. Insurance companies are prohibited from selling a Medigap plan to an individual who is on a Medicare Advantage plan (unless that individual is dropping the Advantage plan).

Although the Medigap naming conventions are confusingly similar to the names of the various Medicare "parts," the standardized Medigap plans and their alpha "plan" names are totally different. The word "parts" refers to the four Medicare programs (Parts A, B, C and D) that are run by (or under the tight supervision of) the government. The word "plans" refers to privately sold supplemental insurance policies that are permitted by the government (currently Plans A, B, C, D, F, G, K, L, M and N). Note: Medigap plans C and F are no longer available to people who were born on or after January 1, 1955.

The most basic Medigap plan is Plan A. That supplemental plan covers the Medicare Part A coinsurance and hospital costs (up to an additional 365 days after Medicare benefits are used). It also covers Medicare Part B coinsurance or copayment costs, the first three pints of blood, and the Medicare Part A hospice care coinsurance or copayment costs. The other Medigap plans cover these same basic benefits (most at 100%), but add varying levels of coverage for other things like skilled nursing facility care coinsurance, the Medicare Part A deductible, the Medicare Part B deductible, foreign travel emergency, and Medicare Part B excess charges. The CMS Medigap handbook referenced above includes a helpful and easy-to-read matrix that illustrates the various coverages of each of the Medicare Supplement policies.

Federal law requires that all Medigap plans must be standardized. Since there is no difference in the benefits of the Medigap plans sold by various insurance companies, most people shop for a Medigap plan based on service and price (which can vary widely).

Important Tip: The premium for most Medigap plans will increase annually to reflect aging. Many Medigap companies attract younger seniors by artificially lowering the rates of the earlier entry ages and inflating the rates of older seniors, so be sure to also compare premiums at older ages when you shop for the most affordable Medigap plan.

How can I learn more about Medicare and Medigap insurance policies?

WMI sells various Medicare Supplement policies in Arizona, Montana, Nevada, New Mexico and Utah. These policies are generally sold on a direct-to-consumer basis which saves seniors expensive commission costs so contact us for a free no-obligation quote. You can also contact me or visit our website at wmimedigap.com if you have questions about Medicare and Medigap policies or would like a free copy of the referenced CMS publication. Of course, the ultimate authority on Medicare is the federal government, and you can find a lot of helpful information at the Centers for Medicare & Medicaid Services website at www.cms.gov. Finally, if you're looking for a Medicare Part D prescription drug plan, you can take advantage of Medicare's helpful and user-friendly plan finder at medicare.gov.

If you have questions about this article or would like to discuss your company's health insurance program, feel free to contact me at **(801) 263-8000** or info@wmutual.com.