



## Help your clients make sense of Medicare

Ensure they enroll at the right time to avoid heavy penalties.

**By Ilana Polyak**

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Medicare is a complex program with many rules, regulations, and moving parts. If consumers fail to enroll at the right time, they can face serious penalties. If they don't buy sufficient insurance to cover the program's many gaps, they may be hit with heavy out-of-pocket expenses.

"Most people have gotten their insurance through their employer, and in many cases they have no idea how health insurance works because their premium just gets taken out of their paycheck," said Scott Bishop, CPA/PFS, executive vice president of financial planning with STA Wealth Management in Houston. That can be a recipe for confusion. However, CPAs can help their clients make sense of Medicare's many options and help them avoid costly mistakes.

CPA financial planners offer suggestions on the key issues you should discuss with your clients.

### **Ensure that 65-year-old Medicare enrollees know they need to enroll.**

Eligibility for Medicare starts at 65, even though the full retirement age for Social Security is now between 66 and 67, depending on birth year.

"That means that if you're getting Medicare [at 65], it can't come out of your Social Security check because you don't have one," said Theodore Sarenski, CPA/PFS, founder of Blue Ocean Strategic Capital in Syracuse, N.Y. "You have to make sure you make that payment."

### **Make sure clients don't miss the enrollment window.**

Unless clients have employer-sponsored coverage, they have a seven-month window to sign up for Medicare, consisting of the three months before they turn 65, the month they turn 65, and the three months after. If they don't sign up during this period, they will incur a late-enrollment penalty of 10% for every 12-month period they don't enroll. (See [this article \(http://www.journalofaccountancy.com/issues/2015/dec/medicare-part-b-enrollment.html\)](http://www.journalofaccountancy.com/issues/2015/dec/medicare-part-b-enrollment.html) for more details on enrollment periods.)

The same is true for Part D drug coverage and Medicare Advantage plans with a premium component. In this case, the penalty is 1% of the national base premium (\$35.63 in 2017) for each month that beneficiaries go without coverage. These penalties remain in effect for the rest of their lives.

As Reina Schlager, CPA/PFS, co-owner of Schlager, Schlager & Levin in Fort Myers, Fla., noted, "Medicare Supplement (Medigap) plans do not have this premium penalty." However, beneficiaries need to apply for them in a timely manner. "If you apply beyond the six-month 'guaranteed issue' window for supplementary plans, you may not be eligible for this type of plan due to your medical history," Schlager said.

### **Help clients enroll for all the parts of Medicare that they need.**

Medicare isn't just one program. It comprises many parts, starting with Parts A and B, otherwise known as original Medicare. [Part A \(https://www.medicare.gov/your-medicare-costs/part-a-costs/part-a-costs.html\)](https://www.medicare.gov/your-medicare-costs/part-a-costs/part-a-costs.html) covers hospital stays, and it carries no premium for those who have accumulated at least 40 work credits during their careers, or roughly 10 years of work. (Beneficiaries will still be responsible for [deductibles and copayments \(https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html\)](https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html) for hospital care.)

[Part B \(https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html\)](https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html), on the other hand, pays 80% of outpatient services such as doctor's visits, lab work, durable medical equipment, and ambulance services. The cost is based on a beneficiary's income. Premiums start at \$134 per month for those earning under \$85,000 and incrementally increase up to \$428.60 for retirees earning \$214,000 or more.

[Part D \(https://www.medicare.gov/part-d/costs/part-d-costs.html\)](https://www.medicare.gov/part-d/costs/part-d-costs.html), available through private insurers that contract with the Centers for Medicare & Medicaid Services, covers prescription drugs. CPAs should be aware that, even with Part D, prescription drug costs [can be considerable \(http://www.journalofaccountancy.com/newsletters/2015/sep/health-care-costs.html\)](http://www.journalofaccountancy.com/newsletters/2015/sep/health-care-costs.html).

"People will say, 'I don't need Part D because I don't take any medications, so why pay for it if I don't use it?'" Sarenski said. "The reason is, of course, that you'll be [penalized \(https://www.medicare.gov/part-d/costs/penalty/part-d-late-enrollment-penalty.html\)](https://www.medicare.gov/part-d/costs/penalty/part-d-late-enrollment-penalty.html) for that later on."

Sarenski recommends that clients who aren't currently taking any medications purchase a no-frills Part D plan. Then, when they do need prescription drug coverage, they can switch to a more robust offering during the annual enrollment period, but without incurring a penalty for going without.

It's also vital for your clients to review which Part D plan to enroll in on a yearly basis. If their medications change, the plan they've been using may no longer be the best option for them. Their insurance company may also have changed its formulary, meaning that it no longer covers certain medications or that it's charging more for certain drugs. This yearly "checkup" can ensure that clients don't get locked into a more expensive plan than they need.

### **Help clients decide how best to cover Medicare's gaps.**

To cover Medicare's many gaps (deductibles, copayments, coinsurance, and limits), many CPAs recommend that clients choose a supplemental plan. A lot goes into making that decision.

There are 10 standard types of [Medicare Supplement Insurance \(https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html\)](https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html) (Medigap) plans. Each provides a different level of coverage. Plan F, available through private insurers, is the most popular option, though it is the most expensive. These plans pay for most things Medicare does not, including coinsurance and deductibles.

"If you're going to utilize a lot of health care, then Plan F is probably a good bet," Bishop said.

Each Medigap policy's coverage is [standardized \(https://www.medicare.gov/supplement-other-insurance/compare-medigap/compare-medigap.html\)](https://www.medicare.gov/supplement-other-insurance/compare-medigap/compare-medigap.html), so one insurance company's Plan F plan covers the same benefits as another company's. Clients' choice of Plan F plans usually comes down to price, Schlager said.

Advantage plans are often cheaper than traditional Medicare. But under HMO Advantage plans, coverage is limited to the plan's networks of providers. PPO Advantage plans allow beneficiaries to use out-of-network providers, but beneficiaries need to pay more of the cost if they do so. Patients covered by Advantage plans may also have to pay hefty out-of-pocket expenses beyond the premium—something that Medigap enrollees won't have to.

On the other hand, many Advantage plans include Part D prescription drug coverage, and they may include other perks like vision care, hearing aids, and even reimbursement for a gym membership.

"The No. 1 deciding factor of whether or not you should use an Advantage plan is your geographic area," explained Jerry Love, CPA/PFS, who works in Abilene, Texas. In his town of 120,000, there aren't that many options for doctors and hospitals. If patients need to see a specialist, the closest one may not be in their network. They may need to travel as far as Dallas—a three-hour drive. In their case, Medigap is often the better choice.

Big-city dwellers may decide differently. "In metropolitan areas you have a lot more choices," Love said. People who had an HMO before becoming eligible for Medicare may not see much difference by using an Advantage plan, Love noted. But those who want the flexibility to go to any doctor who accepts Medicare may prefer Plan F.

The costs for Plan F also vary by state and by carrier. For example, in Alabama, plans are as low as \$120; in New York they can run as high as \$550. Plan F also has a high-deductible option with lower premiums. Clients and their advisers can compare plans at the [Medicare \(https://www.medicare.gov/find-a-plan/questions/medigap-home.aspx\)](https://www.medicare.gov/find-a-plan/questions/medigap-home.aspx) website.

### **Be sure clients know that Plan Fs and Plan Cs won't be an option after 2019.**

Starting in 2020, new enrollees will no longer be able to sign up for Plan F or Plan C Medigap plans. These plans are being phased out because they both cover the Plan B deductible, which lawmakers believe encourages beneficiaries to use more health care services than they need, thus driving up health care costs. However, people who enroll in Plan F or C before 2020 will be "grandfathered in" and still be allowed to use the plans.

Even though Medicare is complicated—and getting more so by the minute—it still forms the backbone of retiree health care coverage. Careful planning can make a dramatic difference in out-of-pocket costs. Your clients need a knowledgeable partner helping them evaluate all the options to keep their costs down.

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