

# Understanding Your Medicare Options

*What Medicare coverage do you need?*



Soon-to-be retirees about to turn 65 have an important choice to make regarding their health insurance. Specifically, do you go with traditional, public-sector Medicare, or do you combine that approach with a privately-administered Medicare “Advantage” plan?

After all, along with pillars of retirement preparedness such as —

- Income planning
- Tax planning
- Wealth management
- Estate planning

— managing healthcare costs is an indispensable aspect of life for most retirees.

## **And these costs are mounting.**

The average retired couple age 65 in 2022 can expect to spend an average of \$315,000 in after-tax savings just to meet healthcare expenses throughout retirement. That’s according to Fidelity Investments, and it assumes they’re both enrolled in Medicare parts A and B. The research further says that single retirees who leave work at age 65 can expect to spend as much as \$143,000 (for women) or \$157,000 (for men) on healthcare in retirement. The final number will depend on individual overall health, when and where they choose to settle, and how long they live.

Meanwhile, the median retirement savings for Americans age 55 to 74 is between \$134,000 and \$164,000, according to the Federal Reserve — making even average healthcare costs in retirement a significant potential drain on resources. The impact of healthcare inflation is also worth noting. Fidelity’s 2022 healthcare cost estimate is 30% higher than it was in 2012, and 88% higher than it was in 2002.

## Understanding the Four “Parts” of Medicare

Though sobering, these approximations help dispel complacency, which is rife among consumers. Fidelity says half of consumers who specifically claim to have conducted “research and analysis” on healthcare costs think \$50,000 is the most they’ll need to cover their personal healthcare expenses During their retirement. And again, Fidelity’s cost estimates assume enrollment in basic Medicare.

**Let’s see what Medicare actually covers in each of its four parts.**

### PART A

## Hospital Coverage

Hospital stays, skilled nursing services, hospice. This is managed by the Centers for Medicare and Medicaid Services (CMS).

#### PART B

### Medical Coverage

Outpatient services, outpatient hospital charges, doctor visits, professionally administered medication, and “durable” medical equipment such as walkers, scooters, and breathing aids. This is also managed by the CMS.

#### PART C

### Medicare Advantage

Also called “Medicare Advantage,” this lets beneficiaries choose private coverage with at least the same benefits as Part A and Part B, sometimes Part D benefits, and yearly out-of-pocket limits (which parts A and B don’t have). Beneficiaries must be enrolled in parts A and B before they can sign up for Part C. Medicare Advantage programs are run by private providers under contract to the CMS that receive payment from the government for providing Medicare services.

#### PART D

### Prescription Drugs

Self-administered prescription drugs.

Beneficiaries already covered by Medicare Part A and Part B (aka, “traditional Medicare”) may purchase additional “Medigap” insurance. This is private-sector “supplemental” insurance designed to bridge gaps in Medicare parts A and B by covering most of the costs of covered health care services and supplies as well as copayments, coinsurance, and deductibles. Some Medigap coverage includes medical care while traveling outside the US.

## How Do Medicare and Other Insurances Work Together?

It’s complicated, so let’s lay a little groundwork.

First, we assume the beneficiary has Medicare Part A and Part B. Next, we recognize that Medicare and other supplemental insurance are “payers.” Which one is the “primary” payer depends on whether the beneficiary has supplemental insurance. If no, Medicare is likely the primary. If yes, the outside insurance takes that role.

In all cases where there’s more than one payer, the “primary” payer initially pays what it covers on the bill, and then the “secondary” payer steps in to make good on other coverage that doesn’t overlap with the primary coverage. (“Tertiary” payers come into the picture from time to time, and they become additional sources of coverage after the primary and secondary payers make good on their obligations.)

## Which One Will It Be?

Traditional Medicare can be a good choice for those who want the ability to use any healthcare provider who accepts Medicare, and not have to worry whether they accept specific Medicare Advantage providers, although higher premiums may result.

Those looking for a streamlined approach to their healthcare in retirement, and who know their healthcare provider accepts their private-sector Medicare coverage, may prefer a Medicare Advantage plan.

Which one ends up costing less will depend on several variables, including:

- Your state of health
- Your prescription drug needs
- Your Medigap coverage (should you opt for traditional Medicare)

As with many financial decisions, your best choice is particular to your circumstances. Cerity Partners is here to help. If you have any questions about how to structure your Medicare coverage, you can start the conversation by contacting us [here](#).

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