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Memorandum

Date: August 23rd, 2023

To: Joe Rinaldi
President and CIO

From: Hayden Tran
Investment Analyst

Re: Are You Over 65? — The Biggest Mistakes People Makes When Picking a Medicare Plan

If you are thinking about retirement, beware of these popular mistakes when choosing a medicare plan.

Mistake 1: Underestimating the costs of traditional Medicare

Traditional Medicare, as offered by the government, has three parts, A, B, and D. Part A covers care for inpatient hospital services, while Part B covers physician services, and Part D is for prescription drugs. Although the plan's flexibility guarantees subscribers to visit any hospital or doctor without a referral or prior authorization of services, the plan comes with significant costs. Part A premiums are often zero for those who have worked for at least 10 years, or $500 a month if you haven't. However, Part B carries premiums that depend on your income, ranging from $165 a month to over $500 a month per individual. In addition, a hospitalization (with some exceptions) is accompanied by a $1,600 deductible. Likewise, a hospital stay longer than 60 days carries a $400 copayment a day, and a skilled-nursing-facility stay longer than 20 days will cost $200 a day. You will also be responsible for 20% of the Medicare-approved cost of physician services during your hospital stay. This kind of cost-sharing can break most retirees, especially for those in need of advanced treatments.

Mistake 2: Underestimating the costs of Medicare Advantage

Medicare Advantage is an alternative to traditional Medicare: You must first sign up for Medicare Parts A and B, and then you can sign up for a Medicare Advantage plan. Often called Part C, this option is usually a bundle of A, B and D, delivered by private companies that are approved by Medicare. The advantage of this plan depends on the private insurers, with some offering zero-premium plans and lower out-of-pocket expenses. However, some of those positives are slightly misleading. Zero premium applies to Part A and D, meaning that you are still paying the Part B premium. Meanwhile, those cost savings on out-of-pocket expenses only apply if you stay in network. If you go out of network, things can quickly become very expensive, like having to pay 20% coinsurance on hospital stays. This in-network and out-of-network distinction limits where you can go, both where you live and in other regions, which can make Medicare Advantage the wrong choice if you need to access a particular doctor or hospital, or spend a lot of time in different parts of the U.S.

Mistake 3: Choosing traditional Medicare without Medigap

Medigap—supplemental insurance sold by private companies—helps traditional Medicare beneficiaries pay for the cost sharing in Parts A and B. Almost 10% of people who choose traditional Medicare don't have any supplemental coverage, which you can get by purchasing a Medigap policy, through Medicaid or through an employer. If you can't afford Medigap premiums, then pick a Medicare Advantage plan. In addition, Medigap is regulated both by Washington and the states, so plans work differently in different states.

Mistake 4: Forgetting to get prescription coverage

Many people simply don't know a basic fact about Part D of traditional Medicare: You aren't automatically enrolled in it along with Parts A and B. You must actively select this plan, which covers prescription drugs. Not doing so and not choosing promptly can leave you stuck with the cost of prescriptions yourself. You have only 63 days after your initial enrollment in Medicare to enroll in Part D. If you miss this window and don't have other drug coverage, your Part D premium will be permanently higher. For every year that you don't make a choice, your Part D premiums will rise by about 12%. Part D premiums are tied to income, with an average cost of $43. Like other parts of Medicare, there is a lot of choice in Part D plans.

Mistake 5: Not checking out your broker

Brokers can be extremely helpful, but routinely neglect to tell their customers that they are paid $400 to $500 per enrollment by insurers, often to sell more expensive plans, which creates a fundamental conflict of interest in the advice they provide. Thus, if you are seeking to consult your broker's opinion, make sure to ask them questions about their incentives, the plans that they're not telling you about and whether the discounts they are offering you will dry up in a year or two.

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