

The Medicare Maze: How a CPA can help new Medicare enrollees plan for a healthy financial future.

Everyone's nerves are a little on edge these days. Older Americans face particular challenges when it comes to planning their financial future. Health care costs are one of their biggest concerns. As your clients inch closer toward age 65, you can play a critical role in helping them decide when and whether to enroll in Medicare. To the untrained eye, Medicare's breadth and complexity can be overwhelming. With a little knowledge, you can help your client navigate the Medicare maze.

Medicare is the nation's largest health insurance program, covering over 45 million people. Beneficiaries include those age 65 or older, and those under age 65 who have certain disabilities or end-stage renal disease. For those about to turn 65, there is a seven-month enrollment period that begins three months before a person turns 65. A person can choose to enroll in some or all of Medicare's four parts, commonly referred to as Parts A, B, C, and D. Each has different enrollment criteria.

Medicare Part A

Part A governs hospital insurance and helps pay for inpatient hospital, home health, skilled nursing, and other types of care. It is available to most eligible people without a premium if the person or her spouse paid Medicare taxes during their employment.

The Part A benefit period has different costs depending on the number of days a beneficiary has spent in a hospital. For example, in 2010, a patient is required to pay \$1,100 for the first 60 days in a hospital.¹ For the next thirty days, the patient must pay \$275 per day.² If the hospital stay is longer than 90 days, a patient can remain in the hospital for up to 60 more days at \$550 per day.³ With the onset of a debilitating illness that requires hospital care, Medicare beneficiaries may face steep costs. A CPA can advise families and individuals to determine how best to plan for potential health costs.

Medicare Part B

Part B covers payments for medically necessary services and requires a monthly premium. A person who gets Social Security benefits is usually eligible for Part B beginning the first day of the month she turns 65. If a person does not sign up for Part B when she is first eligible, there may be a late enrollment penalty and, worse, a lapse in coverage. A person is eligible to sign up for Part B when she turns 65, but she can forego Part B and continue coverage through her employer's health insurance. There is no issue while a person is employed.⁴ However, once a person retires or terminates her employment, the eight-month Part B enrollment period begins,

¹ United States Social Security Administration, *Update 2010*, January 2010, <http://www.ssa.gov/pubs/10003.pdf> (last visited Aug. 2, 2010).

² *Id.*

³ *Id.*

⁴ United States Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare & You*, 22, January 2010, available at <http://www.medicare.gov/Publications/Pubs/pdf/10050.pdf> (last visited Aug. 2, 2010).

even if she is still covered by other insurance (e.g., through COBRA).⁵ When her employer's coverage ends, she may have to wait to enroll in Part B until the next enrollment period (January 1 through March 31), creating a lapse in coverage.

High-income beneficiaries may also face higher premiums. Generally, Part B provides coverage for a premium (\$110.50 per month in 2010).⁶ But wealthier seniors may face higher premiums if their income reaches a certain level. For example, to determine a person's premium for 2010, information is used from her 2008 tax return.⁷ Starting in 2011, recent health care reforms froze the threshold for income related premiums at the 2010 premium level until 2019.⁸ To plan for a higher premium, a CPA can help those nearing age 65 manage their income.

Medicare Part C

Part C, the Medicare Advantage program, allows Medicare beneficiaries to enroll in private health plans already approved by Medicare. Each plan is required to cover all of the services Medicare covers, including emergency care, and some offer extra coverage, like dental or vision. Most plans also include prescription drug coverage. While each plan works differently, a monthly premium is usually required.

Recent health care reforms cut \$132 billion in payments to private companies that offer Medicare Advantage plans.⁹ As a result, some private insurers may choose to drop certain benefits or may not offer Advantage plans altogether. A CPA can help Medicare enrollees decide whether an Advantage plan fits within their health needs and financial limitations.

Medicare Part D

Under Part D, Medicare beneficiaries who enroll in Part D receive subsidized prescription drug insurance coverage. To receive drug coverage, a person must join a Medicare drug plan, have Part A and/or B, and pay a premium. Whether a medication is covered and at what cost depends on the plan.

A CPA can help Medicare beneficiaries deduct certain qualified medical expenses, including prescription drug costs, from their tax return. However, recent health care reforms increased the income threshold from 7.5 percent to 10 percent of a person's adjusted gross income.¹⁰ This change begins in 2013, but the increase is waived until 2016 if the taxpayer or her spouse is 65.¹¹

⁵ *Id.*

⁶ United States Social Security Administration, *Medicare Part B Premiums: Rules For Beneficiaries With Higher Incomes*, July 2010, <http://ssa.gov/pubs/10161.pdf> (last visited Aug. 2, 2010).

⁷ Press Release, Centers for Medicare and Medicaid Services, CMS Announces Medicare Premiums, Deductibles for 2010 (October 16, 2009), <http://www.cms.gov/apps/media/press/factsheet.asp?Counter=3534> (last visited Aug. 2, 2010).

⁸ *Health Reform Implementation Timeline*, Henry J. Kaiser Family Foundation, 4, June 15, 2010, <http://www.kff.org/healthreform/upload/8060.pdf> (last visited Aug. 2, 2010).

⁹ Press Release, United States Senate Committee on Finance, Health Care Reform: Saving Taxpayer Dollars by Cutting Fraud, Waste, Abuse (April 1, 2010), <http://finance.senate.gov/newsroom/chairman/release/?id=1e7794a0-4bb4-4cb5-9807-d33f56345524> (last visited Aug. 2, 2010).

¹⁰ *Health Reform Implementation Timeline*, supra note 9, at 2.

¹¹ *Id.*

As more Americans approach age 65 and look to CPAs for guidance about how to plan ahead, a CPA can play a vital role in reducing the confusion new beneficiaries face. By creating a map of important enrollment deadlines, potential loopholes, and possible financial consequences, a CPA can offer customized advice to reduce the uncertainty that comes with entering the maze.

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