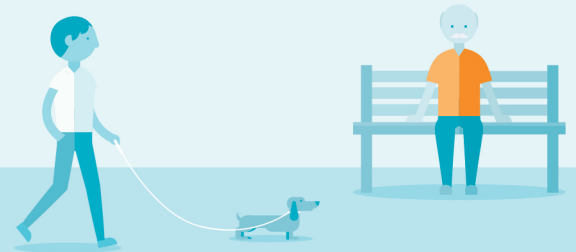


Principal Funds

# Getting the most from Medicare benefits



# Agenda

- Healthcare top concerns
  - Household healthcare costs
  - Medicare
  - Medigap
- Medicare pros and cons
  - Costs
  - Enrollment period
  - Things to consider
  - Resources


# Healthcare concerns

- 4 in 10 retirees say healthcare expenses are higher than expected
- Just 1 in 5 workers and 4 in 10 retirees have tried to calculate or estimate their healthcare costs in retirement
- 7 in 10 workers and 6 in 10 retirees say that education on healthcare planning for retirement would be helpful

# Typical household healthcare costs

## Average household spending

- Age: **65-74**
- Average annual healthcare cost per person: **\$6,373**
- Percentage of total average annual spending: **12.2%**



A retired couple with average prescription drug expenses would need **\$280,000** to have a **90% chance** of meeting their healthcare costs during retirement.

Those are just out-of-pocket costs beyond Medicare coverage.

Fidelity Retiree Health Care Consulting Estimate, 2018.

# What is Medicare?

- Federal health insurance program
  - For people age 65 or older (or the disabled after 2 years)
  - Three main healthcare options: Parts A, B, and C
- Prescription drug coverage is Part D
  - Medigap or Medicare Supplement

# Eligibility

- Age 65 or older or disabled for two years
- Qualify for Social Security benefits (elected or not)
- May be eligible based on spouse's or former spouse's eligibility

# Medicare Parts A and B

## Original Medicare

### Part A (hospital insurance)

- Hospital stays
- Skilled nursing care
- Home healthcare
- Hospice care

### Part B (medical insurance)

- Doctors' services
- Outpatient medical/surgical services
- Diagnostic tests
- Outpatient therapy

# Medicare Part D

## Prescription drug coverage

- Helps cover prescription drug costs
  - Provided through private companies
  - Voluntary enrollment
- Must be enrolled in Parts A and B
  - Enroll during the initial enrollment period



# Medigap

- From a private insurance company
  - Premiums vary by company, coverage, and state
  - Generally doesn't cover long-term care, vision, dental, hearing aids, eyeglasses, or private-duty nursing
- Buy during a six-month open enrollment period
  - Any standardized Medigap policy is guaranteed renewable even with health problems

# Medigap

- › Ten standardized plans: A, B, C, D, F, G, K, L, M, and N
  - › Plans cover costs like copayments, coinsurance, and deductibles
  - › Standardized plans must all offer the same benefits
- › Cost is usually the only difference between policies (with same letter sold by different companies)
  - › Some states (MA/MN/WI) are standardized in a different way

# Medicare Part C

## Medicare Advantage

- Coverage provided by private insurance companies
- Get all of coverage in Parts A and B
- May also get other benefits to help cover costs
- “Bundled” version of original (a la carte) Medicare
- Cost vary by plan

# Medicare part C

## Medicare Advantage plans



Health  
Maintenance  
Organizations



Preferred  
Provider  
Organizations



Private  
Fee-for-  
Service Plans



Special  
Needs Plans



Medical  
Savings  
Accounts

# Original Medicare pros and cons

## Pros

- Flexibility of doctors and hospitals
- Pick and choose the coverage:
  - 35% of Americans purchase Medicare supplement
  - Portability

## Cons

- 80/20 Plan:
  - unless Medigap is purchased
- More coverage = higher premiums
- No dental or vision

# Medicare Advantage pros and cons

## Pros

- All healthcare in one package
- Dental and vision can be included
- Out of pocket maximums can be included

## Cons

- If doctor or hospital is out of network:
  - Additional out of pocket cost may be incurred
- Limited to PPO or HMO networks:
  - Unless a PFFS, SNP, or MSA plan is purchased
  - Limited to what the plan allows

# Original Medicare costs

**Part A** = \$0 premium (if met 40 quarters)

**Part B** = \$135.50 (higher if subject to IRMAA\*)

**Part D** = \$51.28 (natl. avg. monthly premium)<sup>3</sup>

**Medigap** = \$143 (natl. avg. monthly premium)<sup>4</sup>

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**Estimated total = \$329.78 monthly premium**

May not include co-pays or deductibles

(Depends on your Medigap Plan)

\*Income-related monthly adjustment amount (IRMAA)

<sup>3</sup> Centers for Medicare and Medicaid Services (CMS), "Annual Release of Part D National Average Bid Amount," July 31, 2018.

<sup>4</sup> *Business Insider*, "Medicare Isn't Enough for Retirees," June 18, 2018

# Medicare Advantage costs

<b>Part C base premium</b>	=	\$135.50 (higher if subject to IRMAA <sup>*</sup> )
<b>Additional plan premium</b>	=	\$40 (natl. avg. <sup>**</sup> )

**Estimated total = \$175.50**

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Total average monthly premium varies by state and local jurisdiction as well as by plan

<sup>\*</sup>Income-related monthly adjustment amount (IRMAA)

<sup>\*\*</sup>National average premium for Medicare Advantage + prescription drug coverage plans.



# Part B Premium

## Modified adjusted gross income

File individual tax return	File joint tax return	Monthly premium
\$85,000 or less	\$170,000 or less	\$135.50
\$85,001 – \$107,000	\$170,001 – \$214,000	\$189.60
\$107,001 – \$133,500	\$214,001 – \$267,000	\$270.90
\$133,501 – \$160,000	\$267,001 – \$320,000	\$352.20
\$160,001 – \$500,000	\$320,001 – \$750,000	\$433.40
Above \$500,000	Above \$750,000	\$460.50

### Important note:

If not enrolled when first eligible, premiums will increase 10 percent for each full 12 months until enrolled.



# Part D premium

## Prescription drug plans

- Premiums set for policy offered
- If income above certain limit, an income-related adjustment amount (IRMAA) is paid in addition to the premium
- There may be an additional premium cost

# Part D Premium

## Modified adjusted gross income

File individual tax return	File joint tax return	Additional monthly premium
\$85,000 or less	\$170,000 or less	\$0.00
\$85,001 – \$107,000	\$170,001 – \$214,000	\$12.40
\$107,001 – \$133,000	\$214,001 – \$267,000	\$31.90
\$133,001 – \$160,000	\$267,001 – \$320,000	\$51.40
\$160,001 – \$500,000	\$320,001 – \$750,000	\$70.90
Above \$500,000	Above \$750,000	\$77.40

MAGI from 2017 Tax Return.

# Costs

## Part D (“Donut Hole”)

- Coverage gap
  - Pay higher cost while in the “donut hole”
  - Between \$3,820 and \$5,100 total retail prescription costs
- Assistance for those who reach the donut hole in 2019:
    - 75 percent discount on brand-name drugs
    - 63 percent discount on generics

# Real Life Examples of Original Medicare Costs

Georgia, retired, age 65, \$70,000 annual income

- Original Medicare with Part D and Medigap:
    - \$0 for Part A
    - \$135.50 for Part B
    - \$51.28 for Part D
    - \$143 for Medigap plan
  - \$329.78 total premium per month
- Medigap covers co-pays and deductibles for Part A and B
  - She pays for dental, vision, and any long-term care costs

# Real life examples of Medicare Advantage costs

David, retired, age 68, \$130k annual income:

- Medicare Advantage with prescription drug coverage.
    - \$0 for Part A
    - \$270.90 for Part B portion
    - \$40 (Ave. plan premium)
  - \$310.90 total premium per month
- ⋮
- His out of pocket expenses include:
    - Co-pays on the services he uses and prescriptions
  - He pays for dental, vision, and any long-term care costs
  - He pays out of pocket for services outside his network

# Initial enrollment period

## If receiving Social Security:

- Auto enrollment at age 65

## 7-month enrollment window:

- 3 months before 65<sup>th</sup> birth month
- 3 months after 65<sup>th</sup> birth month

## If enrollment deadline is missed:

- Must wait until general enrollment period: January 1 through March 31 of each year

- Part B monthly premium penalty may apply, equal to 10%, for each full 12month period that you could have had Part B, but failed to enroll.

# Special enrollment period

## If covered by a qualified group plan:

- Sign up for Part A or Part B anytime
- During an 8-month window after employment ends:
  - Qualified group coverage is lost

## COBRA and retiree plans:

- Don't count as qualified coverage



# Medicare supplement enrollment

## **A one-time, 6 month Medigap Open Enrollment period:**

- Starts the first month you're 65 and enrolled in Part B.

This period provides a guaranteed right to buy any Medigap policy regardless of health status.

Once this window is closed, can change plans but underwriting may occur.

# Prescription drug enrollment

During the initial enrollment period (7-month window)

Can change plans each year from October 15 to December 7

Late enrollment penalty:

- Multiply 1% of “national base premium” times number of months without coverage

# Open enrollment period

Once covered under Medicare:

## **Enrollees can change plans:**

- Original Medicare to Medicare Advantage
- Medicare Advantage to Original Medicare
- Medicare Advantage to Medicare Advantage
- Part D to another Part D



**Annual enrollment Period  
is from October 15 to  
December 7.**

# Enrollment period summary

## Enrollment period

- **Initial enrollment**
- **Special enrollment**
- **Open enrollment**

## When to enroll

- **7 months around 65<sup>th</sup> birth month**
- **Within 8 months**
- **October 15 to December 7**

## Considerations

- **Avoid penalties for late enrollment**
- **Still working and covered beyond age 65**
- **Shop for better plans, lower cost, more coverage**

# Things to Consider

- › Evaluate healthcare needs
  - › What plans cover needed services
  - › Have any other coverage
  - › Costs: premiums, deductibles, and co-pays
- › Choice of doctors or hospitals
  - › Prescriptions drug coverage
  - › Quality of care
  - › Convenience
  - › Travel

# Resources

- **Center for Medicare & Medicaid Services**  
800-633-4227  
[medicare.gov](https://www.medicare.gov)
- **Social Security Administration**  
800-772-1213  
[socialsecurity.gov](https://www.socialsecurity.gov)

- **State Health Insurance Assistance Program**  
[medicare.gov/contacts](https://www.medicare.gov/contacts)
- **Eldercare Locator**  
[eldercare.gov](https://www.eldercare.gov)

# Thank you



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