

Medicare

Understanding the program's complexities

The federal government administers the Medicare insurance program to help seniors afford health care. To fully benefit from the program, you need a grasp of its complexities.

Medicare consists of:

- Hospital insurance (Part A)
- Medical insurance (Part B)
- Medicare Advantage (Part C)
- Prescription drug plan (Part D)

Medicare starts at age 65

Virtually all U.S. residents who are age 65 or older qualify for Medicare. Unless you are disabled, your coverage cannot begin until age 65. Even if you take Social Security benefits at 62, you must wait until 65 for Medicare. Although Social Security's full-retirement age is gradually increasing from 65 to 67, the age for Medicare will remain 65.

Medicare and Medicaid: What's the difference?

Don't confuse Medicare with Medicaid. Medicare is a health insurance program. Medicaid is a medical assistance program. Each state has its own Medicaid rules—within broad federal guidelines—but every state requires Medicaid applicants to meet low-income and low-asset eligibility requirements.

Part A: Hospital insurance

Medicare Part A helps pay for:

- Inpatient hospital care
- Hospice care
- Skilled home-health services for homebound patients

Part A also helps with short-term inpatient care in Medicare-certified skilled nursing facilities, but only if the patient is there for rehabilitation—not for long-term or custodial care.

Qualifying

Once you reach age 65, the question becomes whether you will have to pay a monthly premium for Part A or get it free of charge. Almost everyone qualifies for Part A without paying a monthly premium.

In general, you need at least 40 quarters of coverage to get premium-free Part A. You can get 40 quarters by working and paying the Medicare payroll tax in as few as 10 years.

You can also qualify for premium-free Part A based on your spouse's work history. If your spouse has at least 40 quarters, and he or she is at least 62 years old or deceased, you get Part A for free at age 65. This also works for ex-spouses if you are now unmarried and your marriage lasted for at least 10 years.

If you qualify for Part A for free, you should probably take it at age 65, even if you have other insurance, even if you are still working, and no matter how high your salary is.

Alternatively, if you don't qualify for Part A for free, you can purchase coverage. In 2018, Part A's monthly premium is \$422 if you are at least 65 and have fewer than 30 quarters. The premium is \$232 per month if you are at least 65 and you—or your spouse or ex-spouse (of any age)—have 30 to 39 quarters.

Even if you do not take Part A because of the premium, you can enroll in Part B at age 65. See the section on page 3 titled “SEP.”

Part B: Medical insurance

Part B helps pay for:

- Doctors' services
- Outpatient hospital care
- Medical equipment and supplies
- Some preventive services

Qualifying

All U.S. citizens and all legal aliens who have lived in the United States for at least five years qualify for Part B at age 65. No work history is required, but everyone who wants Part B must pay a monthly premium.

Although it is optional, you will almost certainly need Part B, even if your employer lets you carry health insurance into retirement. Generally, if you turn down Part B, you can change that decision only during a general enrollment period (GEP) or a special enrollment period (SEP), discussed below.

Premiums

Most enrollees pay \$134.00 per month for Part B in 2018. Higher-income retirees pay more, as shown in the table below. Normally, Medicare deducts this premium from Social Security benefits, Railroad Retirement Board benefits, or Civil Service annuity checks. If you don't receive any of those payments, Medicare will bill you.

2018 monthly Part B premiums

2016 MAGI*			Premium [†] (new beneficiaries)
Single filers	Joint filers	Married/separate filers	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$ 134.00
\$85,000.01–\$107,000	\$170,000.01–\$214,000		187.50
\$107,000.01–\$160,000	\$214,000.01–\$320,000		267.90
\$160,000.01–\$214,000	\$320,000.01–\$428,000	\$85,000.01–\$129,000	348.30
More than \$214,000	More than \$428,000	More than \$129,000	428.60

If you have experienced a life change that reduces your income in the current year, you may be able to request a Part B premium adjustment mid-year (before the automatic resetting of the Part B premium occurs). Life changes may include a marriage, divorce, loss of a spouse, a cessation from working or reduction in hours, or other events. If such changes occur, contact your local Social Security Administration office. Your Social Security Administration representative can advise you on what documentation of the change you will need to provide.

* The definition of modified adjusted gross income (MAGI) used for this law includes adjusted gross income (the last line of page 1 of Form 1040) plus tax-exempt interest income.

[†] Note that enrollees who started on Part B in previous years may have lower premiums.

Enrollment periods

Initial enrollment period. Your first opportunity to enroll in Part B is a seven-month period around your 65th birthday: from three months before until three months after the month of your birth. Assuming you want Part B, and to ensure you get all the coverage you are entitled to, you should enroll at least 32 days before your 65th birthday. If you decline Part B during the initial enrollment period, you can change your mind only during a GEP or SEP.

GEP. The annual GEP is Jan. 1 through March 31. There are penalties if you enroll during a GEP: Your coverage is delayed until the following July 1, and you pay higher premiums for the rest of your life.

SEP. A SEP lets you make a late enrollment without incurring any penalties. A SEP, unlike the GEP, lets you pick up Part B without unwanted delays in coverage or higher premiums. Either of these situations allow you a SEP:

1. You are still working and have health insurance from your current employer.
2. Your spouse is still working, and you have health insurance from your spouse's job.

In general, if you qualify for a SEP because of your employment, you should enroll in Part B as soon as you stop working. Likewise, if you qualify for a SEP because of your spouse's employment, in general, you should enroll in Part B as soon as your spouse stops working. Health insurance you carry into retirement from a former employer does not entitle you to a SEP (even if it's COBRA).

Part C: Medicare Advantage

You will have the option of buying health insurance from the private sector as an alternative to joining the "traditional Medicare" program that comes from the government. These alternative plans are called Medicare Advantage plans or Medicare Part C. Depending on where you live, your Part C options can include health maintenance organizations, preferred provider organizations, private fee-for-service plans, and Medicare medical savings accounts.

Part C is a private-sector alternative to the traditional Medicare coverage that comes directly from the government. If you choose a Part C plan, you will generally get all of your Medicare-covered services, including all services, supplies, and drugs that are otherwise covered by Parts A, B, and D, from your Part C plan instead.

Patients who have Part C usually have lower deductibles and copayments than patients who have the traditional fee-for-service Medicare, and they usually get more health care benefits. However, Part C plans typically restrict your choices of health care providers.

If you enroll in a Part C plan, Medicare will pay the plan a monthly fee. You might have to pay an additional monthly premium, depending on the plan.

You may find that a Part C plan is less expensive than buying a Medicare supplement, especially if the Part C plan also includes prescription drug coverage (so that you can avoid paying the separate premium for Part D).

Note: Medicare enrollees who choose Part C must continue to pay their Part B premiums.

Part D: Prescription drug coverage

Medicare's optional Part D covers prescription drugs. If you have Part A, Part B, or both, you will qualify for Part D.

Unlike Parts A and B—but like Part C—Part D comes from a private company, not directly from the government. When you turn 65, you will have the right to enroll in one of several Medicare-approved Part D prescription drug plans.

Most of the cost of Part D is paid by Medicare. However, if you choose Part D, you will pay a monthly premium to the Part D company you select. The average plan premium is about \$61 per month. Higher-income retirees pay an additional income-based monthly premium to Medicare (see table below). You can ask the Social Security Administration to deduct this premium from your Social Security check, or you can arrange to pay your Part D plan directly.

2018 monthly Part D premium addition

2016 MAGI		Married/ separate filers	Addition to 2018 monthly Part D premium
Single filers	Joint filers		
\$85,000 or less	\$170,000 or less	\$85,000 or less	your plan premium
\$85,001 to \$107,000	\$170,001 to \$214,000		\$13.00 + your plan premium
Above 107,000 up to \$133,500	above \$214,000 up to \$267,000		\$33.60 + your plan premium
Above \$133,500 up to \$160,000	above \$267,000 up to \$320,000		\$54.20 + your plan premium
Above \$160,000	above \$320,000	above \$85,000	\$74.80 + your plan premium

Part D covers both generic and brand-name drugs. Each Part D plan has a formulary: a list of medications that it covers. It's best if you pick a plan that lists all of your drugs in its formulary. However, if no plan covers every medicine that you need, join one that covers most of them. Your doctor, pharmacist, and Part D plan will work together to find drugs that are safe and effective for you. If it is determined that there is only one drug that is effective in treating your condition, your plan must cover that drug, even if it is not listed in its formulary.

In general, you should enroll in Part D as soon as you can. However, if you delay enrolling because you have comparable prescription drug coverage (also called “creditable” coverage) from a current or former employer and that creditable coverage ends, Medicare lets you change your decision later without penalties or lapses in coverage.

Applying for Medicare

Part A and Part B

The Social Security Administration enrolls individuals in Part A and Part B. As you near age 65, if you've already applied for Social Security benefits, the Social Security Administration will automatically enroll you in both Part A and Part B. If you want Part B, do nothing; just keep the red-and-white-and-blue Medicare card that comes automatically. If you do not want Part B, you must make a written request to withdraw.

As you near 65, if you have not yet applied for Social Security, you should contact the Social Security Administration about enrolling in Medicare a couple of months before your 65th birthday.

Part C and Part D

If you want Part C or Part D, you must enroll with one of the private companies that offer one of those plans. You can find a list of plans in your area on Medicare's website: [medicare.gov](https://www.medicare.gov).

Supplementing your coverage

Medicare is not likely to be enough health insurance. For services that Medicare does cover, there are deductibles and copayments—parts of the bill that Medicare leaves unpaid. To minimize out-of-pocket expenses, most retirees have Part A, Part B, and Part D, plus some other arrangement to supplement Medicare's coverage.

Plan from a former employer

If you are lucky, a former employer will let you carry its group health plan into retirement. If you are retired and eligible for Medicare, your employer's group health plan is your Medicare supplement. The combination of Part A, Part B, Part D, and a Medicare supplement from your former employer will probably be enough health coverage. Alternatively, Medigap insurance or Part C may be an option for you.

Medigap insurance

Medigap is supplemental health insurance you buy from a private insurance company to fill in some of the gaps in Part A and Part B. Medicare does not pay any of the premiums for a Medigap policy. A Medigap policy only covers one person; therefore, each spouse must have his or her own policy.

Medigap policies pay some or all of Medicare's deductibles and copayments, and some cover a few services that Medicare does not cover at all, such as health care services you receive while you are traveling outside the United States.

Medigap does not substitute for Part A or Part B. Medigap is something you have in addition to Part A and Part B. You cannot buy insurance to supplement Part D.

There are standardized Medigap policies, enabling shoppers to easily compare prices and coverage. In most states, those plans are lettered from A through N (not every letter is used).

It can be confusing that Medigap uses letters to name the standardized policies because Medicare also uses letters to label its various parts. But the letters still make it much easier to compare Medigap policies.

Medigap open enrollment period. When retirees first enroll in Part B, they have a six-month Medigap "open enrollment period." During this period, a retiree has the right to enroll in any Medigap insurance policy sold in his or her state. Medigap insurance companies cannot reject an application during an open enrollment period—even if the applicant is unhealthy.

Medicare Advantage (Part C)

Part C is not a true Medicare supplement because it replaces Medicare's coverage. But if you have Part C, you will not need a Medicare supplement.

You can count on us

Your Financial Advisor is prepared to help assess your retirement income alternatives and insurance needs.

Military retirees

TRICARE is health insurance for retired members of the uniformed services, their families, and their survivors. When a military retiree turns 65, his or her TRICARE turns into a different program called TRICARE for Life. TRICARE for Life supplements Medicare. TRICARE for Life beneficiaries must enroll in Part B to keep their TRICARE for Life coverage, but they do not need Part D. For more information, call 1-800-444-5445.

Long-term care insurance

No part of Medicare—not even Part C or Medigap insurance—covers long-term care. Medicaid does cover long-term care. But Medicaid only helps people who have few financial resources. If you want insurance that helps pay for long-term care, you need to buy a policy from an insurance company.

This report contains basic information about Medicare, services related to Medicare, and services for people with Medicare. If you would like to find more information about the government Medicare program, please visit the official U.S. government site at medicare.gov.

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