Choosing a Medicare Supplement Plan

Health Watch

The limits of Medicare coverage are a surprise to many retirees. Some learn the lesson during their pre-retirement planning. Others don't find out until they incur medical expenses in retirement.

Medicare covers only about half the medical expenses incurred by retirees, according to studies over the years. The specifics vary for each beneficiary, of course. Some people incur far more uncovered expenses than others.

For example, Medicare doesn't cover many types of medical care (dental, vision, most prescription drugs, and some other treatments). It also has limited coverage of some types of care. Most importantly, there's a 20% deductible on almost all covered care. So, if you incur a major medical expense, you pay 20% of the cost with no limit.

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You need a plan to cover the medical care that isn't covered by Medicare. You could plan to pay the uncovered expenses out of pocket and build flexibility to pay those expenses in your saving and spending plans. But that route results in a lot of uncertainty. You don't know the amount and timing of the medical expenses you'll incur. You need a big cushion and a lot of flexibility in your retirement plan to choose this route.

Another choice is to join a Part C or Medicare Advantage plan. These plans generally cover more than traditional Medicare. The exact coverage depends on the plan, so check plan documents carefully.

When you belong to traditional Medicare Parts A and B, consider purchasing a Medicare Supplement, or Medigap, insurance policy. (You aren't allowed to buy a Medigap policy if you're in Medicare Advantage.) You'll have to pay premiums for the policy, which will increase your fixed annual expenses. But the policy will increase coverage and create more certainty about your maximum exposure. It's an important protection for those concerned about the uncertainty of retirement expenses or having large, unexpected expenses drain their estates.

The first and best time to buy a Medigap policy is your initial open enrollment period. This is a six-month period that begins the month you turn 65 and are enrolled in Part B. During this period you can purchase any policy offered in your area and can't be declined or charged a higher premium for health reasons. The insurer can't cancel your policy as long as you pay the premiums.

After that, you can buy or change a Medigap policy at any time, but the insurer can decline to issue a policy for health reasons or delay coverage of preexisting conditions for up to six months. (Even if the Medigap policy excludes coverage for a preexisting condition, traditional Medicare still will cover its share of the costs of the preexisting condition.) Or you can be charged a higher premium because of your age or health.

Also, if you buy for the first time after your initial open enrollment period, in most cases you'll incur a penalty that results in higher premiums for the rest of your life. The exceptions apply to those who had other types of coverage, such as Medicare Advantage or an appropriate employer plan, during their initial open enrollment periods.

The Medicare Supplement policies are standardized by the federal government. Gone are the days when older people were sold numerous policies with overlapping coverage or few benefits. The types of benefits that can be offered are standardized. Insurers aren't allowed to sell you duplicative coverage, and that's why Medicare Advantage members aren't allowed to buy Medigap policies. The table on the next page summarizes the coverage of the different plans that are authorized.

To maximize your coverage, consider Plans F and G. These plans cover most deductibles and copayments under traditional Medicare Parts A and B. They also cover medical care while traveling outside the U.S. and some other costs. The main difference is Plan G doesn't cover the deductible for skilled nursing home care. If you own a long-term care insurance policy, you might prefer Plan G to Plan F.

The other plans offer less coverage which should result in lower premiums. As with other types of insurance, you're transferring risk and uncertainty to the insurer in return for higher premiums. Your fixed annual costs from using Plans F or G are higher, but your costs are more fixed and certain.

Take the time to shop around for a policy. Many people are overpaying for Medigap policies, by as much as 100%, because they don't shop around, according to a study by CSG Actuarial. Because the policy terms are standardized by the government, the coverage is the same. The differences are in premiums, customer service, and factors such as speed of reimbursements. Some insurers have different expense levels or make different assumptions

Comparing Medigap Plans

	A	B	C	D	F	G	K	L	M	N
Part A coinsurance and hospital costs up to an additional 365 days after Medicare benefits are used up	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Part B coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Blood (first 3 pints)	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Part A hospice care coinsurance or copayment	✓	✓	✓	✓	✓	✓	50%	75%	✓	✓
Skilled nursing facility care coinsurance			✓	✓	✓	✓	50%	75%	✓	✓
Part A deductible		✓	✓	✓	✓	✓	50%	75%	50%	✓
Part B deductible			✓		✓					
Part B excess charges					✓	✓				
Foreign travel exchange (up to plan limits)			✓	✓	✓	✓			✓	✓
Out-of-pocket limit**							$4,940	$2,470		

* Plan F also offers a high-deductible plan. If you choose this option, this means you must pay for Medicare-covered costs up to the deductible amount of $2,140 (in 2014) before your Medigap plan pays anything.

** After you meet your out-of-pocket yearly limit and your yearly Part B deductible, the Medigap plan pays 100% of covered services for the rest of the calendar year.

***Plan N pays 100% of the Part B coinsurance, except for a copayment of up to $20 for some office visits and up to a $50 copayment for emergency room visits that don't result in inpatient admissions.

about the costs they'll incur. Others assume people won't shop around.

Shopping for Medigap is easy. You can see summaries and details of all the policies offered in your area on the Medicare web site at www.medicare.gov or you can talk through the choices with someone by calling 1-800-MEDICARE. Your local Area Office on Aging or other local government agencies or nonprofits might offer assistance, and there are financial planners who also assist in evaluating policies.

Don't buy a policy because it seems to be the best-seller in your area or everyone seems to have it. It might be the best policy, or perhaps the insurer is good at marketing or offers above-average commissions to agents.

Don't automatically select the policy with the lowest initial premium. Some insurers offer low premiums because they are relatively new to the business or are trying to increase market share. They're likely to increase premiums substantially over time.

You want a financially-sound insurer that's issued Medigap policies for a long time. If you want to do the research, look for one with average-to-low-costs compared to the industry and that pays reasonable but not high commissions to agents.

Another sign that high premium increases are likely down the road is the insurer offers guaranteed-issue policies outside the initial open enrollment period. Guaranteed-issue means a policy will be issued regardless of age or health and everyone the same age is charged the same rate. Such insurers are likely to attract people with health problems.

Another important detail is whether the insurer uses the "attained age" or "issue age" method to determine future premiums. An attained-age insurer bases premiums on the policy-holder's age and steadily increases premiums as a person ages. An issue-age insurer bases future increases on the insurer's expenses and overall health costs, not age. As a general rule, attained-age policies tend to have lower initial costs but over time are subject to higher increases. Over the years, an issue-age policy is likely to cost less and have less volatile premiums.

After purchasing a Medigap policy, even if you shopped carefully when purchasing it and are happy, you should shop around regularly if you're in good enough health to be insurable. Insurers increase premiums by different amounts. A policy that was competitive when you purchased it might not be after a few years. Check the Medicare web site to see if there's something better. Don't cancel your existing policy until you've been approved for a new policy and know the premium. RW