Ep. 198 - Medicare 101: What Most People Get Wrong About Medicare

Host: Patti Brennan

Guest: Eric Fuhrman

Patti Brennan:

Hi everybody. Welcome to *The Patti Brennan Show*. Stop—hi everybody. Welcome to *The Patti Brennan Show*. Whether you have $20, $20 million, or $200 million, this show is for those of you who want to preserve and grow your assets so you can live your very best lives.

Joining me today is Eric Fuhrman, our Chief Planning Officer and our resident expert on all things Medicare. Boy, do you guys have a lot of questions about Medicare, and today we're going to be answering them. Eric, welcome to the show.

Eric:

Thanks, Patti. Delighted to be here, as always. It's been phenomenal. Before we started, guys, we were talking about this. I said, "Eric, you are our resident expert." When I'm done, I'm going to dictate some of the points we're bringing out in this podcast to share with as many people as we can—especially our team—because you just know so much about it.

Eric:
Well, you know, as we were talking before this podcast recording, I'm glad it comes off that way. And "expert" is kind of a daunting title, but honestly, I hope for our listeners it comes across as very clear and straightforward. It's kind of like an iceberg, because the reality is what we're going to discuss today is really the outcome of probably hundreds of conversations we've had with our clients about Medicare in all types of situations. It's just this continuing learning process—understanding the program, how it impacts people, and what's relevant.

Patti:
And it changes so much. There's been legislation that's changing the way these plans work, and it's really important that we stay up to date, right?

Eric:
Yeah—and it's a very common planning topic, especially for people getting closer to retirement.

Patti:
Sixty-five is a big area that we work in, and so forth. So how about we do this: I'm going to read some of the questions, and then you and I can banter back and forth like we always do, right?

Sounds great. Okay. So question number one comes from Jennifer, who writes, "Patti and Eric, I turned 65 last year and didn't sign up for Medicare because I was confused and overwhelmed." Welcome to America, Jennifer. "Now I'm hearing about general enrollment. What is it, and can I still sign up?"

Marcus in Philadelphia has a similar question. “Eric, I missed enrolling when I turned 65 last summer because I was healthy and didn’t think I needed it. What should I do during this general enrollment period?”

So first of all, Marcus, don’t beat yourself up. Let’s get you covered right away. Eric and I are going to address both of these questions today. So let’s first start with general enrollment. What is it?

Eric:
Yeah. So right now, you have these unique periods of time that impact Medicare throughout the year. For most people, they have their initial enrollment period—and this occurs three months before you reach age 65, the month of your birthday, and then the three months after. So this initial enrollment period is really a seven-month window when you’re first eligible to sign up for Medicare.

Now, if you miss that opportunity—and there can be various reasons why—the general enrollment period, which offers a second opportunity. I kind of think of it as the Medicare mulligan. Yeah—mulligan, right, exactly. Essentially, this gives people the opportunity to sign up for Medicare if they missed their initial enrollment period.

Patti:
And we’ll talk later about special situations—if you’re continuing to work and you have coverage, that’s a whole different ball game. We can also talk about some of the penalties people might face if they don’t enroll.

Eric:
Yep, absolutely. And there’s also a concurrent enrollment happening here, too. The general enrollment period is for someone who wants Original Medicare, but there’s also a general enrollment period for people who might have Medicare Advantage.

So when you’re thinking about Medicare, there are really two tracks you can follow. The general enrollment period—which we’re focusing on here—is for those who missed their initial enrollment period, meaning the time when they first reached 65 and could sign up.

And as you pointed out, there are also special enrollments with lots of different criteria. More often than not, it’s when someone is still working beyond age 65 and has group health insurance, so there’s no immediate need to sign up. That’s really the most common special enrollment situation, which we’ll highlight here—

Patti:
—in a little. Okay, all right. Two very practical questions. How does somebody actually sign up for Medicare? Can you just go on Medicare.gov and sign up there? Let’s be practical—how do we direct our listeners and viewers? How do you do it?

Eric:
Yeah, that’s a great question. And yes, I think it would be logical to assume, “If I need to sign up

for Medicare, I just go to Medicare.gov or call 1-800-Medicare." But the reality is, you need to go to the Social Security Administration.

That's where you sign up for Medicare Part A and Medicare Part B, which is the beginning of the enrollment process. The main reason is that Medicare Part A is provided at no cost if you have 40 quarters—or 10 years—of work history. Social Security has the historical earnings data to make that determination.

While Medicare provides the medical insurance and runs the program, Social Security holds the compensation history needed to determine eligibility. So you must go through the Social Security Administration to sign up.

Patti:
Okay, so you mentioned two paths, right? Questions three and four are related to those two paths.

Robert asks, "I keep hearing about guaranteed issue when it comes to Medicare. What is it, and why does it matter?"

And question number four comes from—let me just get to it, because there are lots of questions here—Sandy asks, "Should I choose Original Medicare or Medicare Advantage? Everyone I talk to says something different, and I'm more confused than ever."

I'm really sorry about that, Sandy. Hopefully that won't be the case after today's podcast. Yeah. Can I offer a story? Or—why don't you talk about guaranteed issue first?

Eric:
Well, I think we need to go back a little bit to distinguish the two pathways you can choose. When you sign up for Medicare, you have to enroll in Medicare Part A and Part B. From there, you have one pathway called **Original Medicare**, and another pathway called **Medicare Part C**, which is Medicare Advantage.

Those are two different ways you can obtain coverage once you reach age 65, and there are a lot of differences between them. The key thing with Original Medicare is that Part A provides hospital insurance. So if you're ever hospitalized, that covers what happens in the hospital environment. Part B is your medical insurance—when you see doctors, specialists, and go for tests.

Patti:
So let me clarify. Part B is this thing called Medigap coverage—is that correct? That's in addition? That's an add-on? Okay—so that's not Part B.

Eric:
No—yeah. So Original Medicare is Part A and Part B. That's the hospital insurance and the medical insurance. The issue with those two coverages is that there are deductibles and coinsurance.

So if you're hospitalized for a major surgery, Medicare covers the first 60 days. But starting on day 61, you have a coinsurance amount you're responsible for, along with a deductible—about $1,600 or $1,700. With Part B, when you go to see a doctor, Medicare pays 80% of the cost. Your coinsurance is 20%.

So if you're going down the Original Medicare path, it's highly advisable to get what's called a **Medicare Supplement Plan**, also known as **Medigap**. This is an add-on insurance policy that provides financial protection against the coinsurance and deductibles under Original Medicare.

Patti:
So those are the plans with the letters—you know, the A, the N, the G, all that kind of—

Eric:
—yeah. It becomes a real alphabet soup, right? So just remember: Original Medicare is A and B. Then, if you need Medicare supplement insurance, that also uses letters—I think it's A through N—to define those plans. Medicare supplements are really important to eliminate financial—

Patti:
—exposure risks. Oh, they're so important. They are *so* very important.

Eric:
Yep. They're standardized insurance policies. Depending on which letter you pick—A through N—that determines the coverage.

Patti:
And they're heavily regulated. We'll talk more about that in a minute, especially how pricing works. Because beyond the letters, pricing can vary based on how the plan is underwritten—whether it's community-based, issue-age-based, or attained-age-based. That's an important caveat.

So back to Original Medicare versus Medicare Advantage. With Original Medicare, you've got guaranteed issue. It doesn't matter how sick you are—you're going to qualify, you're going to get the benefit. Tell me more about Medicare Advantage. How does that work? Because it has changed. For those of you who've heard about this, the rules of that game have changed pretty significantly. Yeah.

Eric:
So I think the important part—just to back up to Original Medicare—is the appeal. There's broad acceptance. Medicare is ubiquitous across the country, so it doesn't really matter where you go. There's no defined geographic area of care. It's broadly accepted nationwide. You can go anywhere, you don't need a referral, and so forth.

That's the appeal, especially for a lot of the people we help, who are retirees. They travel a lot, right? They're snowbirds.

Patti:
Yeah, many are snowbirds.

Eric:
So they may be in different parts of the country for long periods of time. Original Medicare has appeal there because there are no geographically defined networks.

Now, Medicare Advantage is a little different. The appeal is that it looks and feels very much like a group insurance plan that most people experience while they're working.

Patti:
Maybe it's even better. I mean, it covers everything—and that's the appeal, that initial pitch. It'll cover drugs, glasses, dental stuff to a certain point, right? But tell us more.

Eric:
Yeah, exactly. It's a way to package everything together. And to your point, Original Medicare doesn't cover vision, dental, or hearing, whereas Medicare Advantage plans can add all of those components—prescription drugs, and even things like a gym membership. How about that one?

Patti:
Yeah, yeah.

Eric:
So I think it feels easier because everything is bundled together. The other part is pricing. These plans are often priced very competitively. They can have low premiums, or sometimes even no additional Part B premium that you have to pay. Price is definitely an element that attracts people to those plans.

Patti:
Can I clarify one thing, though? What we've learned is that Medicare Advantage plans are subject to this thing called IRMAA. So if you have a high income, you may not get the pricing that was originally quoted.

Eric:
Yeah. Both Original Medicare and Medicare Advantage are subject to IRMAA—it's income-based. You're absolutely right, that can be an additional cost depending on circumstances.

But the main thing with Medicare Advantage is that care is provided within a constrained geographic area. Just like a group plan, there's in-network and out-of-network care. You might pay a low premium—and it may look lower than Original Medicare—but your maximum out-of-pocket could be $9,250 for in-network services. If you need out-of-network care, that could be over $13,000—almost $14,000.

Patti:
You know, Eric, let me tell a story. This wasn't a client, but a prospect who came in. She was on a Medicare Advantage plan. The issue was that she was being prescribed care for an illness, and

she kept getting denied—denied, denied, denied. She wanted to go back to regular Medicare because regular Medicare covered all the things the doctor was prescribing, and she couldn't go back to regular Medicare. They wouldn't insure her because she was beyond the 12-month guaranteed issue period. In that case, this poor woman died on a Medicare Advantage plan because she couldn't get the care—the treatments—that were being prescribed.

That broke my heart. It made me mad. It got my Irish up. That's why this is such an important topic, you know? Because it's just—I don't know. So let's talk about that aspect. And that aspect actually *has* improved somewhat, right?

Eric:
And I think this kind of brings it full circle, because we're going down the rabbit hole on both of these plans, as we always do. You know—digging deep, digging deep.

Patti:
That's what we do. But we embrace the complexity in order to provide simple, clear—

Eric:
—answers. Absolutely. And I think this brings us back to Sandy's original question, which was, "What is this thing about guaranteed issue rights?" and so forth.

The important part is that everyone has the ability—if you want to start with Original Medicare right out of the gate, that's fine. And if you want to try Medicare Advantage, you can absolutely do that. Usually, every year during open enrollment, you can switch between the two. You can do that year after year.

The issue, though, is something called a *trial right*. If you want to go from Original Medicare to Medicare Advantage, you can do that. You can try it—kick the tires—see if you like it, see if it's for you.

But with Original Medicare, you need that Medigap plan—that Medicare supplement plan—correct? So there is a period of time when you have something called a guaranteed issue right. That means regardless of your current or prior health history, there can be no underwriting. You cannot be denied access to that Medicare supplement plan, and they cannot charge you a higher premium because of your health conditions.

The problem is, if you go on a Medicare Advantage plan and you stay on that plan for longer than 12 months—unless there's a unique exception—you can come back to Original Medicare, but you will no longer have guaranteed issue rights. You are no longer guaranteed the ability to buy a supplement.

So again, they give you the ability to move back and forth. But once you try Medicare Advantage, the clock starts ticking. After those 12 months pass, you can still come back—but you're no longer guaranteed the right to purchase that supplement regardless of health history. That's the big concern.

Patti:
Okay, so let's talk about someone who has a company plan—retiree health coverage. They're working for a big company, very comfortable with the coverage, and they go onto that retiree health plan. What's important to know about that, Eric?

Eric:
You really have to understand the plan. There's usually a very voluminous brochure that explains it. But in our experience, a lot of individuals who work for large companies—maybe publicly traded corporations—have access to retiree health plans.

We see a lot of people take those plans primarily because they retire *before* age 65. You're not eligible for Medicare or Medicare Advantage until age 65, unless you're disabled. So many people use those retiree plans to bridge the gap so they don't have to buy private coverage on the marketplace—

Eric:
—buy a private plan on the marketplace, and so forth. Now, the issue is when they get to age 65, that plan may convert. In some cases, the benefit might go away at 65 and they simply have to sign up for Medicare and the other components. Or that plan might convert to a Medicare Advantage plan. It may convert to a supplement plan, right?

The supplement works with Original Medicare. Medicare Advantage is kind of its own thing—it's a different pathway. That's the key question when it comes back to the trial period. If that retiree coverage converts to a Medicare Advantage plan, that begins the clock.

So we have to be mindful and ask, "Is this the type of coverage we want?" Because then you're dealing with in-network versus out-of-network issues. It's really interesting.

Patti:
So let's say we have someone who's 64, they get their pink slip—they're downsized, whatever—and they go on COBRA. They get 18 months of coverage through their current provider. They may have to pay for it, but let's talk about signing up. There's a really important rule here—you only have… how many months is it? Eight months to sign up?

Eric:
Yeah. That falls under one of the special enrollment provisions—and in my experience, it's the most common one we see. Let's say someone is still working. We see a lot of people working beyond age 65. They maintain group insurance, and then when they retire, they have eight months to enroll in Medicare Part A and Part B.

Once they're on Part B, they then sign up for a Medigap or supplement plan.

Patti:
That's really important. So whether you retire or you're downsized, you have eight months—once you're 65—to sign up for Medicare and secure your guaranteed issue rights.

Eric:
That eight-month window starts from the point you lose employer coverage. Now, something important to consider is that some people are offered COBRA. COBRA simply extends employer group coverage for up to 18 months in most cases, and sometimes the employer subsidizes it—sometimes they don't.

But what's critical to remember is that COBRA does *not* extend the Medicare enrollment deadline. That eight-month clock begins the moment you lose active employer coverage. COBRA is not considered group coverage for purposes of that clock.

So if you're over 65 and on COBRA, you can't delay signing up for Medicare until the 18 months ends. You *could* do that, but then you'd be looking at a penalty.

Patti:
And those penalties can be significant. They don't go away after a year or two—they last for the rest of your life. It could be 10%, 20%—basically 10% for every year you delayed signing up.

Now, there *is* some wiggle room. We've gotten pretty creative helping people work around it—but let's not even get to that point, right?

Eric:
Yeah. It's every full 12 months beyond when you were eligible that the penalty applies. So just make sure you're within that window. Guaranteed issue rights are key here—you want to be very aware of when the clock starts. You need to be aware of your rights to get coverage without any kind of underwriting, and it's really key to make sure you—

Patti:
—get signed up. Key Financial, right? Yeah—right there. Key takeaways. Yes, exactly.

And you know what—when people are approaching age 65, all I can say to any of you at that point is tick tock, tick tock. Be aware that you've got some really important decisions to make. Call your advisor. If you have one, call us. Call somebody and get expert advice.

So here's a question for you—this is something nobody really talks about. Let's go back to Medigap coverage. Medigap supplements Parts A and B, and it's really important. When you look at Medigap coverage, it goes by letters—A through whatever, right?

And you know, most people—I'll just come out and say it—we usually recommend Plan G. The G plan, because it's the most comprehensive coverage. It's probably a little overkill in Pennsylvania, but here's the deal. What I like about G is—actually, I don't want to take over. Why don't you talk about the eight states that have prohibited excess—

Eric:
—charges. Yeah, yeah. So basically, when you're shopping for a Medicare supplement plan, you're back in that alphabet soup—A through N. Which one do you pick?

These are standardized plans. So if you pick an A plan, there will be different insurance companies you can buy it from, but the reality is all the benefits are standardized. Price is really the only differentiator.

Patti:
That's really important, because these plans are heavily regulated. If you choose an A plan, every A plan—no matter which insurance company you go through—has to provide the same Part A coinsurance, Part B copays, and so on.

So the difference between Company A and Company B is cost. And what's interesting is *how* they price their policies. Why don't you explain that?

Eric:
Yeah, let's get into that. First, you have to decide which plan you want. And to your earlier point, Plan G really checks the most boxes. There *is* a Plan F, but I don't believe anyone can enroll in Plan F anymore. So G is the most comprehensive option available now.

One thing G covers that no other plan does is something called excess charges. When you use Part B and see a doctor, in most cases the doctor agrees to Medicare's approved rate—what they call assignment. But in some situations, a doctor can charge more. That's an excess charge.

Plan G covers those excess charges. Now, we happen to live in Pennsylvania, which is one of—I believe—eight states that generally do not allow excess charges. So Plan G is giving you a benefit that may not matter if all your care is delivered in Pennsylvania or one of those other seven states.

Patti:
And that's the question we both talked about—does it matter where you live, or does it matter where the care is delivered when it comes to excess charges?

Patti:
Full disclosure—we don't know the answer. So talk to somebody who specializes in this area when you're looking at which plan to choose.

Eric:
Yep. In terms of where it's based, I don't know if it's necessarily where you're domiciled. I think it's where the care is delivered—that would make more sense to me. But certainly, Plan G checks the most boxes.

And we always joke about the K and L plans. All of these plans provide three pints of blood—unless you're on the K plan, which covers 50%, so a pint and a half. I'm not going to roll the dice there. Everyone has to make their own decision.

But to your point, once you pick Plan G, you've decided on the benefits. It's very comprehensive. Now the question becomes pricing. There are three different ways Medigap policies can be priced: community-rated, issue-age-rated, and attained-age-rated.

So you might ask, “What’s the difference? What does that mean?” If you think about community pricing, it’s essentially a pool. Whether you’re 65 or 75 when you sign up, everyone pays roughly the same price.

When you’re looking at these plans—and this is where a specialist can provide a lot of value—it’s not necessarily the sticker price today that matters. These three pricing models define the cost curve over your lifetime. Yes, price matters, but you also have to think about how that price may evolve over time, because each model increases differently.

For example, attained-age pricing is based on your age and increases as you get older, in addition to general inflation.

Patti:
So that’s going to be the cheapest upfront.

Eric:
It certainly could be—but it could also become much more expensive over time. So again, this is where working with a specialist can be helpful.

Generally, these plans work with Original Medicare. You cannot have Medicare Advantage and a Medicare Supplement at the same time—that’s important. Those two things cannot be combined.

These supplement plans are important because they provide predictability. They cover exposures—whether it’s a Part A claim for hospitalization or Part B, where you have that 20% exposure. They really give you certainty.

And what we like about them as financial planners is that they reduce the likelihood of significant health-related financial costs down the road—or at least, in our belief, they limit that exposure.

Patti:
What they *don’t* cover is long-term care. They don’t really cover that exposure—when someone is sick and needs home care or assisted living. That’s not covered under any of these plans, right?

Eric:
Yeah. It’s kind of unique, because they do highlight that they cover 100 days of skilled nursing. But the reality is there’s criteria—you usually need a hospitalization first, and then a requirement to go there. It’s very limited.

Long-term care could be something that could last years. And I think 100 days is all that’s given, and it’s not covered unless you’re hospitalized first.

Patti:
Yeah, that’s where the rub comes in. It’s really not the short-term issues—it’s the longer-term

ones. And the cost of that care is really expensive, because demographically, there are a lot of us getting older, and we're going to need that care.

Eric:
So just to avoid any misunderstanding, the rule of thumb is: don't assume there's long-term care coverage. It does *not* cover long-term care. It's a very narrow set of circumstances.

Okay—how about drug coverage? Let's talk about that. Now we're expanding the alphabet soup.

Patti:
A, B, Medigap—and then we've got D, right?

Eric:
Yep, Part D. I believe that came about under George Bush—that's when it expanded. Part D is the component of Medicare that provides prescription drug coverage.

If you're on a Medicare Advantage plan, a lot of those include prescription drug coverage. Part D has also been reformed recently, so there have been changes to how it operates and how costs work. There used to be something called the "donut hole" that people talked about a lot.

But essentially, Part D provides prescription drug coverage. You do have to pick a plan that covers your medications, and the key term there is the *formulary*. You need to look at what you're taking and make sure there's coverage—generic or brand.

Patti:
And the people we rely on to help our clients do that every single year, because medications often change. The company you start with may not be the company you stay with if your prescriptions change. That's why you have to review the formulary—that's what these specialists do.

Eric:
Yep, exactly. Prescription drugs can be unbelievably expensive. So Part D provides coverage for anyone who is taking prescription drugs now—or may need to in the future.

When you're signing up, you're really just checking boxes in order. You sign up for Part A and Part B. You sign up for Part D. You pick a supplement plan if you're going the Original Medicare route. And if you're going Medicare Advantage, you still sign up for A and B initially, but they usually package everything together.

Patti:
Yes, very good. So what's the bottom line? Susan asks, "If you were to give just one piece of advice about Medicare, what would it be?"

And I think you mentioned it earlier: protect your guaranteed issue rights above all else. Be aware, because your health can change dramatically in a day, and all bets are off. You really

want to protect those guaranteed issue rights and make sure you have the comprehensive coverage that's available today, right?

Eric:
Yeah, and I think this is a unique decision. I don't know that we can give broad advice and say, "This is the way it is for everybody." You really have to look at the merits of both options.

But I do think that in certain circumstances—if you live in a rural area, or if you're like many retirees who spend a significant amount of time in the South during the winter and in the North during the summer, or if you travel a lot—Original Medicare often feels like a better fit.

You're not limited by in-network versus out-of-network coverage, and there's no need for specialist approval. That doesn't happen in every Medicare Advantage plan, but it *is* a concern. In those situations, Original Medicare is often a better option because it's so broad—it allows you to go anywhere you might need care.

Patti:
And by the way, that includes international travel, right? Medigap policies can cover you internationally, depending on which letter you choose, up to a maximum. A lot of people who are retiring want to travel abroad—to Italy and places like that—and God forbid you get sick.

Eric:
Yeah. Retirees tend to experience wanderlust, 100%, when they first retire, and their curiosity often expands overseas.

You're absolutely right—Medicare Advantage and Original Medicare do not cover hospitalizations outside the U.S. But if you have a Medicare supplement plan—and you do have to check the specifics, because not all plans do this—several of them provide foreign travel coverage. It's typically around 80%, up to a cap of about $50,000.

That gives you some peace of mind if you're traveling internationally and, God forbid, you're in another country and have a medical need. There should be some coverage—but always read the fine print. It's not 100% coverage in every situation.

Patti:
Boy, that was heavy. Eric, that was pretty heavy stuff. Yeah—Friday, right? It's very complicated.

Hopefully this helped you today to navigate the choices available to you, and to understand where to go for help. Again, talk to your advisor. Talk to someone who specializes in this area. Be thoughtful about the decisions you're making, taking into account your preferences and how important it is to have certainty—especially if you travel a lot.

To Eric's point, that may sway you one way. If cost is the biggest factor, it may sway you the other way. Whatever works for you is what matters. Your choice is your choice—just make sure you're getting real facts and good guidance.

My name is Patti Brennan. Eric Fuhrman, our Chief Planning Officer—the professor—thank you so much for everything you do here, for our clients, and for all of us.

Eric:
Thanks, Patti. It's been a lot of fun.

Patti:
And thank *you* for joining us today. If you have questions—just like all the people who wrote in—we had nine questions, and I'm not sure we addressed every single one.

There are so many questions about Medicare, Social Security, and the decisions people have to make as they approach retirement. It's a really important period in a person's life.

Please visit our website at **www.keyfinancialinc.com** and ask us whatever questions you have. That's what we're here for—to be a resource for all of you.

Thank you so much for joining us today. I hope you have a great day and a healthy year. Take care.