

Medicare

Hello!

With the topic of Medicare being in the news recently, I thought it would be timely to provide details on this as many Americans are covered under this program. The Medicare program first started in 1965 as part of the Social Security Act, which was signed into law by President Lyndon B. Johnson. At the time the law was passed, almost half of Americans age 65 and over did not have health insurance coverage. As of last year, the Medicare program provided coverage for more than 50 million Americans, most of who are age 65 and over, but also include those under age 65 with specific types of disabilities.

Medicare Program

There are four parts to the Medicare program, each of them providing coverage for various health-related services.

Medicare Part A: Hospital Insurance

This provides coverage for:

- Inpatient care in a skilled nursing facility
- Hospice care services
- Some home health care services

There is no monthly premium for this coverage as long as an individual or his/her spouse paid Medicare payroll taxes while working. In the event an individual or his/her spouse did not work or did not pay sufficient Medicare payroll taxes, they may have to pay a premium, which can be as high as \$451 per month for 2012.

Medicare Part B: Medical Insurance

This coverage helps pay for the following:

- Physician services
- Outpatient care services

- Services not covered under Medicare Part A, including home healthcare services, occupational therapy, and physical therapy.
- Some preventive services

There is a monthly premium for this program, and it is typically deducted from one's Social Security benefits. Most people pay a premium, which for 2012 is \$99.90 per month.

However, there is a provision for individuals with higher income levels. For this year, the program looks at one's 2010 tax returns. For single filers with adjusted gross incomes (AGI) of over \$85,000 (\$170,000 for joint filers), their premiums may be higher, ranging from \$139.90 to \$319.70 per month depending on the AGI amount.

Medicare Part C: The Medicare Advantage Program

This program allows for individuals to select a Medicare-approved healthcare plan offered by a private health insurer which includes managed care organizations (HMO and PPO plans) or private fee-for-service (PFFS) plans.

They receive payments from Medicare to provide individuals with those benefits covered by Medicare Parts A and B. They also include Part D coverage for prescription drugs and many offer supplemental coverage, such as dental and vision services, as well as health and wellness programs. However, these plans may charge an additional premium and copayments for these services.

Medicare Part D: Prescription Drug Program

This is offered to everyone covered under the Medicare program, but in order to be eligible, an individual must maintain coverage with a Medicare-approved healthcare insurer or enroll

in a Medicare Advantage plan which includes drug coverage.

With the number of Part D plans available, selecting one may pose a challenge as one needs to determine how much in potential out-of-pocket expenses they feel comfortable with. There are plans which offer a low or no deductible and which cover some medications in the “donut hole.” This refers to the gap in coverage when a plan stops paying for prescriptions and the insured is then responsible for 100% of the costs.

To reduce the “donut hole” effect, in 2010, President Obama signed into law the Patient Protection and Affordable Care Act. Those covered under Medicare Part D will see the amount they are required to pay for their prescription drugs reduced when they reach the “donut hole”. By the year 2020, the insured’s responsibility will be 25% of the costs.

Medigap

These are health insurance plans, also known as Medicare Supplemental Insurance, to cover the gaps in coverage which Medicare does not pay for or only partially covers, including copayments and deductibles. Individuals are not required to carry Medigap insurance, but must first be covered by Medicare Parts A and B before they can enroll in a Medigap plan. Policies vary greatly as some will pay for preventive services not covered by Medicare while others will cover for specific healthcare services performed outside the U.S.

Medicare Tax

The Medicare tax rate for those that are employed is 2.9%, of which half is paid by the employee and the other half by the employer. For those individuals that are self-employed, they pay the full 2.9%. Unlike Social Security taxes, there is no limit on the amount of earned income subject to Medicare taxes.

Conclusion

It is expected that the number of individuals covered under Medicare will continue to steadily increase and the program will likely face significant financing challenges in the future if there is no health care reform. To address the solvency of the Medicare program, representatives in Washington will have to look at the different options available to keep this plan sufficiently funded. These include increasing the eligibility age or premiums for Medicare, raising the Medicare tax rate, requiring drug companies to provide discounts and/or rebates to Medicare, etc. No matter if you are currently covered under Medicare or are years away from this coverage, it is an area that needs to be focused on.