Ep29: It's Open Enrollment – Which Medicare Plan to Choose?

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PATTI BRENNAN: Hi, everybody. Welcome back. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today, with me, I have the real pleasure of introducing Dan McGrath. Dan is considered to be one of the country's leading experts on the subject of health related costs and how they affect retirement and your overall financial plan. His expertise is specifically related to Medicare and the different plans that are available.

I thought this would be a really good topic for us to talk about today because as we all know, it's open enrollment right now for Medicare, Dan, right?

DAN MCGRATH: Yes, it is, Patty.

PATTI: What are the dates? First of all, thank you so much for joining us.

DAN: My pleasure for being here. Thank you for allowing us to get us. Nice to see somebody in the financial industry paying attention to such a – I will argue – very important topic.

PATTI: It's really a big issue for all of our clients and all Americans. It's not an area that a lot of advisors really spent a lot of time digging down and understanding.

DAN: Is we'll go further on in the conversation, you're going to find out exactly how important it is to the country. We're seemed to not be paying attention to the real underlying issue we have, which we'll discuss properly further.

PATTI: Boy, wait until you hear, folks, some of the things that are going to bubble up in today's conversation. Let's talk fundamentals first. We've got open enrollment now started out October…

DAN: 15th.

PATTI: ...right, and it goes until?

DAN: 1st week of December, usually December 7th. Just comes down if it falls on a weekend. I didn't look at the calendar.

PATTI: Dan, you flew into Philadelphia.

DAN: Drove.

PATTI: You drove into Philadelphia.

DAN: Five and a half hours.

PATTI: Five and a half hours from Massachusetts. What a privilege it is for us to have you here with us today. Thank you so much. Let's talk just on a big picture basis fundamentals, Medicare A, B, Medigap advantage. Can you go over those and give our listeners a feel for the differences in the tip and the choices they have?

DAN: We're tying about the exciting world of Medicare. People have to realize that there are two types. You have what is known as Original Medicare and you have what is known as Plan C or Proxy. Medicare is known as the alphabet of coverage.

What the alphabet is Medicare Part A, that covers hospitalization. That covers you going into a hospital as long as you're admitted as an in patient. For medically necessary need, if you have Part A you're completely covered. Everything is covered. That's the beauty of Medicare. That's Part A.

PATTI: OK. Can I just stop you right there?

DAN: Sure.

PATTI: Everything is covered, but what about these people who are having to declare bankruptcy because...

DAN: They've not properly planned. There's a lot of issues.

When you start taking a look at Medicare, the first thing people have to realize, depending on what you choose, so I'm now putting on the two sides, original Medicare or Plan C, so I'm going to put on the original Medicare side add on.

When you have original Medicare, which is Part A, Part B, a stand alone prescription drug plan, which is Part D, and a Medigap plan, which is usually Medigap Plan F, which is the most robust, but you can get it through A through N.

A being the cheapest. N the least protective, but it's still something.

F being the best, but they've shut that down. It's now just Plan G.

If you have original Medicare, here's the key. You have to be admitted as an in patient for a medically necessary need. If you are not, you're not covered.

The example that we like to give with my firm, Jester Financial Technologies, is we've all heard the story of, we'll say it's Jane. Jane retires at the age of 67.

She's dead by the age of 69. Everyone says, "Well, the reason she died is because she wasn't connected to work, or retirement is not fun. It's boring."

That's the giant lie. Who doesn't want to be retired? Who doesn't want to do what they want to do when they want to do it?

PATTI: Yeah, exactly.

DAN: Who wants to deal with the seven hour commute, especially in this area, over the bridges? What ends up happening is Jane retires.

She was on health insurance through her former employer. Not saying it's good or bad or indifferent, but they cover different things.

Prior to going into the hospital and prior going to retirement, Jane goes to the hospital, gets to physical. They do all the blood work. They do the EKG's.

They do all this, and everything's covered. She gets a deductible through her employer. Everything's covered.

She pays a deductible. She goes along her way.

Well now, she's retired. She's 67, 68 years old. She has a flutter in her heart.

She doesn't know what's going on. She goes to the hospital. Because of current legislation, the hospital has a choice.

They're either going to put her under observation, or they're going to make her as an in patient or admit her as an in patient for medically necessary need.

They don't see any outward problems, so they have to bring her in under observation. They run a bastion of tests. They don't find anything wrong with Jane.

PATTI: Are you saying that that is not covered?

DAN: None of it. Medicare doesn't kick in. She pays for it all. Pays for all the tests. Now, the problem gets further. It's further compounded. We had this thing called the Affordable Care Act. What that did, is it paved the way for Medicare to change the inpatient rules.

If you get admitted into a hospital as an observed observation on observation, in order for you to get admitted as an inpatient, you have to spend two midnights inside the hospital. How much is a hospital room?

PATTI: It's going to be four or five hundred dollars a night. Easy.

DAN: No. Try four or five thousand dollars a night.

PATTI: Right, if you add all the tests and everything?

DAN: No. Just the room.

PATTI: Wow.

DAN: Just the room. There's a reason for that when you start looking at healthcare and you start looking at why cost increase. It's mainly due to Medicare, believe it or not. We talked a little bit off the air about a pew study about how Medicare spending has gone down or hasn't increased.

That's not a good thing. That's a very, very, very bad thing. What ends up happening is, they get admitted into the hospital, not as an inpatient but under observation. In order to switch over, they have to do two midnights. After two midnights, if they still don't find anything wrong with her and they can't admit her as an inpatient, she's going to pay the whole bill.

PATTI: A lot of Americans don't realize that as I didn't. It's funny because we are so focused on the deductibles, the co pays, and things of that nature. You've got to make sure that it's going to be covered in the first place.

DAN: When you hear about the hospital insurance denying a claim, it's not necessarily denying claim. I'm not saying that insurance companies are the saviors. They're huge problem as well, because now I'm going to put on the other hat, I'm going to put on the Medicare Advantage or Part C.

Those are private insurance companies that are ministering private insurance plans under the guidance of the centers for Medicare and Medicaid services. They may just deny a claim. The biggest problem you're seeing when people have these high out of pocket, is if

they're on Medicare Advantage, different hat.

The problem when you read the fine print on all of these plans, not many, not a few, all of the plans. If you're not improving, or you're not progressing, or regressing, you're not covered.

PATTI: What a bizarre way of framing things? Insurance is supposed to cover you. It's crazy.

DAN: They cover so you go in. Think of it. You get admitted as an inpatient under Medicare Advantage. There is an issue, you get stabilized. Once you're stabilized, now it comes down to, "Can they discharge you immediately?"

If they can't discharge you immediately because the attending physician doesn't feel it's safe, it's not adequate, whatever it may be...

PATTI: You know what, Dan? I don't know if you realize this. I used to be a nurse. There were people who would be stable for 12 hours, and then they would crash again. They're going to crash at home?

DAN: It may not be that short of a time frame. You as being a nurse, how many people because you'd have made a mention because you did God's work, you did oncology.

PATTI: Yes. Absolutely, yes.

DAN: It's God's work.

PATTI: Thank you.

DAN: How many people slip into comas?

PATTI: That happens an awful lot. It could be a hormonal response, etc. They're in a coma, and then they come back out again.

DAN: Once they go in, they're not progressing, or they're not regressing, they're in a coma so take a stab it with they're not going to cover. That's where you start seeing all these bills rack up. It's all because people don't read the fine print.

You take your Medicare Advantage hat off, and you go to original Medicare which is a little bit more costly, and believe it or not, there is less coverage. If you have a Medigap supplemental policy, you can stay in the hospital for 365 days.

PATTI: It's covered?

DAN: It's covered fully, but it's more expensive than Medicare Advantage plans. Now you're dealing with, "What can you really afford?" and you have to actually think about, "What is my health history for my family? What is my longevity? What am I doing health wise later on in life?"

PATTI: It's really interesting when I think about an insurance, and I explain insurance to clients. It's a risk transfer tool. Either you assume the risk of that coma, and being stable in that coma, and are willing to take the risk that you're going to have to pay for that care while that's happening, or you transfer it to an insurance company.

If that ever happened, let them deal with it. Let them pay for it.

DAN: To just solidify your point, the one thing that people have to realize about healthcare, there is no getting away from it. Unless, of course, you go ride off into the sunset. You're on a boat. It sinks. You drowned. I'm sorry. Even if you're in the street and you have a massive heart attack, they're still bringing you to the hospital. They're still going to run a bastion of tests.

They're still going to try to revive you. You're still going to have a bill. You may be passed away. Your loved ones are going to have that bill. Everyone is going with this bill. What do you do? Do you accept the risk, or do you transfer it as you said?

PATTI: Let's go back to the beginning.

DAN: [laughs]

PATTI: It's so interesting because every time I talk with Dan, we always get into these...

DAN: Tensions.

PATTI: ...nuances and these things. It's important that people are aware of this. We've got Part A, Part B.

DAN: You're talking now original Medicare.

PATTI: Right.

DAN: Under original Medicare you have Medicare Part A, which covers hospitalization. That is premium fee. You pay through that through payroll taxes your whole life as long as you qualify. It's 10 years, 36 whatever the qualification of Social Security. Once you retire and go onto Medicare, that's premium free.

There are co pays and the deductibles with Medicare Part A, which are covered by supplemental plans. Then, in order to cover physician visits, that's Part B. That

unfortunately has a premium. The premium in 2019 was 135.50. It should be going up by about six to seven percent. Should be at 144. We at Jester, what we do is we show people or project what the costs are going to be.

We are not currently confident with what's happening. As you had mentioned, open enrollment started October 15th. We still don't know what Part B is going to cost.

PATTI: Isn't that interesting? Here our government is forcing people to sign up.

DAN: Sign up.

PATTI: We don't even know what the cost is going to be.

DAN: Nice how that you said they're forcing you, believe it or not. One part that we always want to make sure everybody knows, this Medicare, whichever side of the fence you sit on, is mandatory. You can't get away from it. You forfeit your Social Security check. You don't have a choice. On top of that, the Affordable Care Act states that you have to have it.

It's wonderful. I know T. Rowe Price is here. They're helping us plug. They've given a hand out on that. They stole our four rules of retirement. When you take a look at what's really going on when you talk about they still haven't released the money or they still haven't released the premiums, supplemental coverage has already come out.

PATTI: You know at least with the supplemental.

DAN: Here's the problem. Supplemental coverage is coming out. They pay for the deductible of Part B, but we don't know what that deductible is.

PATTI: The insurance companies that are the Medigap policies are taking on the...

DAN: They're taking a huge risk.

PATTI: ...risk. Right.

DAN: This happened before in 2016. This is what scares us. There was a reason specifically why it happened in 2016. From 2015 to 2016, Medicare Part B was supposed to inflate by 52 percent.

PATTI: Wow.

DAN: There's a reason why it physically can't. We present. We explain a certain state, the state of California, filed for insolvency because of it. With that increase, the deductibles were supposed to also go up by not 52 percent. They were going to go up by 20, 30 percent. The

Medicare supplemental companies have already came out with their premiums. They would have taken a bath.

Now the reason why we talk about Medicare Part B premiums can increase, the little dark secret that nobody wants to talk about. This is the country's biggest problem. No matter what anybody wants to talk about, this is it. The public employees that work in the state of Pennsylvania that work in the city of Philadelphia, when they retire and turn 65, what health insurance do they go on?

PATTI: Well, they'd have to go on Medicare, also. Right?

DAN: You're 100 percent correct. Here's the bigger problem depending on their tier structure. We can speak for New York because we've consulted. New York has a tier structure. If you were working for the state or a city in New York state 40, 50, 60 years ago, you're tier one. When you turn 65, everything's covered. They take care of your Medicare Part B.

They take care of your prescription drug coverage. They even buy you a gap plan. Now, it whittles down with the tier structure where unfortunately the newer people coming on are not getting such a robust contract. They may not be getting any coverage at all. You have a problem with these Baby Boomers. There's roughly 76 million of them that are all heading towards retirement.

All these state governments have to pick up their premiums.

PATTI: That's why the state of California...

DAN: Bingo.

PATTI: ...sued.

DAN: They didn't sue. They just basically told Department of Health and Human Services, "We cannot physically pay for this." If you look at the state of New Jersey in 2017, now granted this is from their retirement department. All we can do is just get raw data. They're not going to tell us specifically who's retired. They just give a list of people that are retired.

We don't know if they're getting health benefits. We don't know if they're even still collecting a pension. They just provide the data of all the public employees. There are 373,000.

PATTI: That's a lot of people.

DAN: Part B premiums go up by 52 percent. The state of New Jersey cannot physically afford that. As you made a mention, the federal government hasn't even released any of this. They're

mandating you have to sign up.

PATTI: Wow. It's a real conundrum that people have in terms of making their choices and etc.

DAN: It's worse than actually graduating high school.

PATTI: [laughs] Tell me about how you're making that comparison.

DAN: [laughs] When you're in high school, remember your guidance counselor, your parents, your teachers. Everyone's are all over you. "What do you want to do with your life?" You're 18. Now, you're turning we'll say 65, the golden age of retiring and going on Medicare. You literally only have two choices original Medicare or Medicare Advantage.

Depending on your state, and there's only eight states where you have an option. Pennsylvania not being one of them, my state New Hampshire not being one of them, or our offices in Massachusetts not being one of them. If you don't choose original Medicare, you may never be able to get it.

PATTI: That's the scariest thing about all of this. We tell all of our clients three months before they turn 65, "OK. Get ready. Time to sign up because, if you don't sign up, you could be SOL."

DAN: It's not just SOL. What happens is when we still finish up original Medicare. You have Medicare Part A/Part B. Then you have your own prescription drug plan, which you're paying through your Social Security check, or you're writing a check each month. Then you buy what is known as a supplemental plan to cover the gaps of original Medicare Part A/ Part B.

That's the package for original Medicare. When you retire, once you accept Medicare Part B which covers doctor visits, you have a six month guaranteed issue to get on any Medigap plan you want without being underwritten. You are getting the premium. Whatever that firm charges, that's what you're getting. You cannot be denied. After the sixth month, they can rate you. They can deny you.

PATTI: That's interesting. One, OK, let's play devil's advocate. Let's say somebody missed the deadline, and they are going with one of these companies. They understand they're going to be rated, etc. Once they have it...

DAN: They're in.

PATTI: ...they're in. They can't change it.

DAN: They can raise the prices, but they can't kick you off.

PATTI: Got it, OK.

DAN: That's the beauty of a supplemental plan. Once you're in, you're in, but you have to get in. The example that we give, if you go with Medicare Advantage plans, which have advantages. Medicare Advantage plans, they can give more coverage. They can give you like dental, they can give you vision, they can give you podiatry.

Where Medicare won't give you those types of coverage, Original Medicare, you can go on a Medicare Advantage plan. Medicare Advantage plans are also subsidized by Medicare, so their premiums can be premium free. You can sign up for Medicare, go on a Medicare Advantage plan and you pay nothing out of pocket, other than the Part B premium.

PATTI: Let me play devil's advocate. This may sound crazy, but let's say you have somebody who was really risk averse and they just want to know they're covered for everything, hearing aids, eyes, the whole bit. Can you get Medicare Advantage and...?

DAN: It's illegal to sell. Can't do it.

PATTI: Darn. OK, oh well.

DAN: We go back to State and public employees. For those that are entering near retirement that are public employees who think they're all set, they are. You also want to meet with someone like you, a finance professional that's engaged in this, for the fact that they might actually, believe it or not because they are the only ones that can do it, with exception of Members of Congress they might be fully insured.

They might be able to get original Medicare and the State might be picking up an Advantage plan or vice versa. They could be fully insured, they need to sit down. We will argue it's not three months you want to sit down with you, five, seven, eight years prior and setup a plan to know what's going on.

PATTI: I think that to your point the five, seven, eight years ahead of time, the plan has to do with, what are the overall cost for you, and it's based on your income. Right?

DAN: That's the other part of Medicare, it's when you start talking about how Medicare funds itself. Congress created what is known as the Income Related Monthly Adjustment Amount, better known as IRMAA.

All that is very simply, when you go onto Medicare, by law, Medicare has to contact the IRS to find out how much money you are generating.

If your income is over a certain threshold, you're going to get a surcharge on top of your Medicare Part B or Part D premiums. That surcharge can be anywhere between 40 240

percent of the current year's premiums, Part B and Part D premiums.

PATTI: 240 percent higher?

DAN: Yes.

PATTI: Talk about a success tax.

DAN: [laughs] It's worse than that. What we show people is, especially for people that have earned a lot of money, that haven't spoken to you about distribution...Let's say they have a stay at home spouse. You're going to collect your Social Security check, even though they may or may not need it, they're going to collect their Social Security check.

This 240 percent surcharge comes directly out of their Social Security check. Here's the biggest problem. Their stay at home spouse, who's getting half of their Social Security check, is still getting 100 percent of their Medicare's IRMAA. What happens to their Social Security check?

PATTI: It also goes down.

DAN: It actually goes negative. What we're finding is retirees are actually having to write a check to cover what their Social Security check doesn't cover for the Medicare premiums.

PATTI: Yes, we have seen that. Absolutely.

DAN: You got to plan for that a little bit. It's all about knowing what your income is going to be in retirement.

PATTI: It's interesting because initially, when someone turns 65, 66, the costs of the different plans, etc., when you roll it all together may not seem as intimidating. To your point, in Pennsylvania the costs are age related. They're age based.

We are not one of those states that's community based. Why don't you explain that for our listeners? That's a really big deal.

DAN: We'll use Pennsylvania versus New York. When you turn, let's say, 65 years old, you go onto a regional Medicare. You want what is known as a supplemental plan. You can't buy Plan F. It's now Plan G. Plan G is now the most robust, meaning you get full coverage, with the exception of paying a deductible, which we don't know what the deductible is.

PATTI: Right.

DAN: [laughs]

PATTI: How about it?

DAN: It was $187. We don't know what it is yet. Hopefully it stays at $187. That premium at the age of 65, on average for the state, it's a $195 a month. It can be cheaper depending on the insurance provider that you go to. It can be as low as I believe 168. It can be as high as 235.

PATTI: OK. Let me just stop you there. Here's a question, in all of the insurance companies the benefits have to be exactly the same?

DAN: On supplemental plans, yes.

PATTI: One company can be a well known company, etc. They might cover whatever it is that you might need covered versus Company B, they're going to deny it. That cannot...

DAN: Cannot happen on supplemental plans. Supplemental plans, they all have to offer, no matter who you go to, no matter what state you go to, with the exception of Massachusetts and Wisconsin. They have to provide the exact same benefits. No matter what the plan.

Plan A, I'm just making up names, Plan A for Humana, Pennsylvania is going to be identical to AARP's Plan A. It just comes down to what is AARP want to charge this year or this month versus what Humana wants to charge.

PATTI: Let's go to a third company that you may never have heard of before.

DAN: American National.

PATTI: American National, not a common household name, etc. They may be cheaper. What is the risk that we're taking by going with a company that might be...?

DAN: Here's the biggest risk. The biggest risk is in the state of Pennsylvania, what you are looking at is age. Each year, depending on the contract you buy, you can buy a Medigap policy and say, "I'm walking into the next five years," or "I'm walking into the next two...I'm going to roll the dice. I'm going to play it year by year."

The insurance company may not even give you that option. That lesser known company may not give you that option. The next year you buy it for, let's say, the cheapest 168, in the state of Pennsylvania. The next year they may jack up the Medicare prices by 27, 28 percent.

PATTI: You look at that, you say, "I don't want to be with this company anymore." What happens? You have to go to someone else?

DAN: You have to jump to another Medicare supplemental company but now, you have to go

through medical underwriting and if you're not healthy...

PATTI: Boy, that's a really big deal.

DAN: This is where, again, expertise in, we know you're not on the health side. The reason why we encourage the general public to speak to you before speaking to a health professional that's going to sell these plans. Their job is to sell a plan.

Your job is to make sure the Retirement plan can meet or can incur all the costs within side the plan. You are the one that's going to gauge, can you afford to do X, Y, Z? It's more important to speak to you and members of your team than it is just to speak to a healthcare professional.

PATTI: Yeah. We don't want to have someone who's 72 years old having being on Medicare and with the same Medigap policy and all of a sudden something like that happens, the premium skyrockets. They've got to go to a different company and they're uninsurable. The companies are going to really hit them hard.

DAN: The state of Florida, state wide, the Gap plans increase by 26 percent over the board. Not every plan did that. Some plans inflated by as much as 80 to 90 percent.

This is not in any way an endorsement to Humana and AARP. The well known names within side that world, prices are going up. We're not saying the prices are not going up...

PATTI: But they can spread the risk.

DAN: You're never going to see a double digit increase.

PATTI: Very interesting.

DAN: This is why we're excited, why we drove down here to be on the show. People need to know what's going on. You're one of the only financial professionals in the area that's engaged in this conversation.

PATTI: I just think it's so important because it's such a big part of a retiree's costs. It's interesting, as you know Dan, I'm on the MIT Longevity Council. It's a board of advisors from all over the country. I think there's 12 of us.

It was interesting because Dr. Joe showed us that the cost per medical related care when someone retires, say at age 65, is actually not the biggest costs. Housing and auto costs are actually more expensive than medical costs.

DAN: Yes.

PATTI: To your point, as we age it begins to escalate and escalate and really does become the biggest part of a person's budget, the cost per Medicare, A, B, D...

DAN: This is another reason why speaking to you becomes important. Medicare, no matter how we want to look at it, if we look at original Medicare, it's inflating. The federal government tells us it's going to inflate at a rate, no lower than about 6 percent, 5.87 percent. They tell us that.

We know what Medicare is going to inflate at, and we know what the costs are today. You can plan for that. The problem is, somebody that goes the other route, to Medicare Advantage, now you've basically unlocked Pandora's box on what the cost can be, because they can deny coverage, you're in a network, you may not get the coverage in the right spot.

You may have a medical emergency, you've get transferred to one hospital that's not part of the network.

Those are the risks that people...What's great about this conversation that we're having here is, hopefully listeners understand, we're not knocking Medicare Advantage plans. Everything has a place. If you can afford, if your financial plan dictates you can afford original Medicare, and you understand the rules of Medicare, that's the road you go.

Because you know what the costs are going to be, you know how to maneuver, or use the system, there are no surprises.

PATTI: That's awesome. That's so interesting and so important for everyone listening to know. Now, let's wrap this up. Folks, if you're listening to this broadcast, just know that we're going to do a second broadcast to talk about strategies.

Let's summarize what we've learnt so far. Number one, there are different types. There's original Medicare, and then there's Medicare Advantage.

DAN: Spot on.

PATTI: Basically, Dan, why don't you summarize original Medicare versus Advantage for everybody?

DAN: Original Medicare is basically Medicare for All. One by the centers for Medicare, for Medicaid services. You have standalone plans, you're going to make your own premium payments, but you're going to be fully insured. You're not going to have anything come out of your pocket. As long as you get admitted as an in patient to a hospital for a medically necessary need.

On the other side of the equation, Part C, Medicare Advantage plans, they're run by private insurance companies, overseen by centers for Medicare, Medicaid services. They are going to be cheaper, but unfortunately, there's networks and there's hurdles that you're going to have to jump over. They're both necessary, and it all comes down to your budget.

If you can afford original Medicare with the Medigap plan, that's the road you go. No questions asked.

PATTI: Dan McGrath, this has been an eye opening, ear opening, everything opening podcast. Thank you so much for your time today. We certainly had the expert on Medicare and the different types of plans. I'm so grateful for your time.

To all of you listening, feel free to visit the website at www.keyfinancialinc.com. Send us your questions, feel free to give us a call if you have questions. We will be happy to refer you to people in our area who can help you with these questions. We will help you with these questions and guide you accordingly. Until next time, thank you so much, and I hope you have a wonderful day.

DAN: Thank you, Patti. Thank you for having me on the show.

PATTI: You bet.