Ep30: Choosing your Medicare Strategy – What's the Best Plan?

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PATTI BRENNAN: Hi, everybody. Welcome back 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.

Joining me again is Dan McGrath.

Dan is the expert on Medicare, and all of the different plans that are available to retirees and really is focusing in this podcast on the strategies, the things that we all need to think about as you're applying for Medicare, even if you're on Medicare.

What makes Dan unique is that he's not out there selling anything. Dan's role, and by the way, he's testified in front of Congress.

He is really an active, active person as it relates to these issues because he sees how crippling it is for people who are retired. What makes him unique is that he's developed software programs for people like me so that we can model different scenarios and really help clients make the right choices.

He is so far ahead of anybody else in this area. Folks, you've got to listen to these podcasts that we're doing. You're going to be shocked, as I was, as we were getting to know Dan, of all the little nuisances and the things that we need to look out for going forward.

What's happened in the past, is the past, but there were laws that were passed, as we all know Obamacare being the most significant, affecting this area that are really going to impact the cost for your healthcare going forward. If you thought it was bad before, just wait.

Dan, thank you again for making the trip. Five or six hour drive from...

DAN MCGRATH: Six hour drive. Three o'clock in the morning.

PATTI: Thank you so much.

DAN: I live New Hampshire. The office is in Boston, Mass. People will be able to tell from the haircut after this.

PATTI: We're not even going to talk about the accent.

DAN: There is no accent. Where'd the pilgrims land?

PATTI: Oh boy. Oh boy. Here we go.

DAN: They landed in my backyard. I speak original. Everyone else talks funny.

PATTI: Oh, you are too much. You are too much. Now let's summarize. For those of you who didn't get a chance to listen to the prior podcast, let's quickly summarize the two main plans.

DAN: Original Medicare – which is Part A, Part B – your own prescription drug plan, and a supplemental plan – most likely Plan G. Then there's Medicare Advantage Plans – Part C.

PATTI: Notice, everybody, that when Dan is talking about Medicare, it's not just Medicare. It's Medicare Part A, Part B, Medigap policy, and prescription drugs. In our opinion... In my opinion, if you can afford it, you want all four of those. You really want to be involved. The other option would be to go with a Medicare Advantage Plan.

If you listened to the prior podcast, there are advantages to both plans. This is not a one size fits all approach. You need to understand the differences and the nuances and the risks that you're taking, if you choose one versus the other.

Please, if you haven't listened to it go back, wait to hear some of the stories that we talked about in that podcast. Now we know the issues. We know the choices. Let's talk strategy, because one of the things that a lot of people don't realize is that in Pennsylvania, it's one of 41 states where the cost for the plan are age based.

As you get older, it automatically increases on top of what the government decides they need to increase the costs. For example, even if the government said, "OK, we're going to keep the cost the same," in Pennsylvania, from the ages of 65 to 66, your premiums is going to go up 2%.

DAN: Yes, without a doubt.

PATTI: That's the minimum. As we get older, the risk gets higher because the risk of a need gets higher, so that really escalates. The issue that we've seen is that as people get into their 70s and 80s, because it's taken out of Social Security, what happens to social security?

DAN: Thank you for bringing that up.

PATTI: You're very welcome. I'm here to serve. What we're finding is that Social Security, your monthly deposit is shrinking.

DAN: Thankfully, Congress created this thing called the hold harmless act. The hold harmless act states that no one Social Security benefit can be decreased because of too high of Medicare Part B premiums, but what does that mean? Since it can't go down, it can't go up. That's the big problem. It can't go up.

PATTI: What's interesting about that is, with inflation being as low as it's been over the last 10 years, because it can't go up, if you will. What's happening is the medical costs are not going down. What's happening is Medicare is having to find ways of ramping in their spending, because they're not getting what they need to cover the cost.

DAN: In Medicare's defense, they are not especially if you read the Medicare Board of Trustees report. This is actually a very well thought out one this year, they're all very well, but when they're talking about projections, and when they're going to be broke, it's 2028. It's happening faster. It's all because they can't raise the premiums to where they actually need to be.

PATTI: It's a real big issue. They're looking at different ways of controlling their costs. You've got to listen to the prior podcast to hear some of the stories and what's happening there.

Let's focus on strategy. One of the things that we discussed was that, this is not something that you do three months before you're ready to claim. It's something that we need to be talking about six, seven, eight years ahead of time, and really to project out what your sources of income are going to be because that ultimately is going to control the costs.

One thing that we do want to make everyone aware of is, we talked about this thing called IRMAA, which is a surcharge. It's an extra tax for the cost of Medicare. But the year that you retire because Medicare looks at the prior two years of income to determine what your tier is there is actually a form that can be filed that will put it in the show notes.

I always forget the form number that you can submit.

DAN: It's a re assessment, or revaluation.

PATTI: Exactly. To say...

DAN: It's a one page report.

Right? We've had a qualifying event, so please don't charge me based on the income that I've earned in the last two years. I just retired and I'm not going to earn near that income going forward. It's not to say that they can't claw back because if your income does. If they charge you just the bass premium, they can call back and get that additional...

On the flip side on Medicare. What you're discussing is when people turn 65, on whenever they retire Medicare it's no longer a two year look back. It's now a three year look back. But it's only a two or three year look back depending on your state. We can attest for...I was just in South Dakota.

It's a one year look back. The reason being is how many people live in South Dakota? Social Security can keep up to South Dakota. The city of New York, it's a three year look back.

Because they just can't keep up with everything. What this means whenever you retire, Medicare is going to look back at your income three years. If you live in Philadelphia, they will look at your income three years, you were working. You weren't retire, you weren't on Medicare. You were working and let's say your income was $200,000, and you're single.

You're going to pay 200 percent more of whatever the Part B premium is in a surcharge of about 200 percent more in your prescription drug coverage. Now you have a qualifying event. There are five qualifying events.

The first one being married, divorced, widowed your tax status change. The second qualifying event is, you've cut your hours, you've reduced hours you retired, whatever it means. That will be your qualifying event.

The third is you lost rental income from an event out of your control. Ultimately you have apartment buildings, hurricane came, you lost your rent. The fourth reason is you added an unscheduled suscitation of a pension plan. The fifth one is you had a scheduled suscitation of your pension plan.

Those are the only five reasons that your income can be dropped on a reevaluation. You retire at the age of 65. They look back at your income at say 63/62, they say you're paying way too much. You're going to file a one page report. You're still going to pay Medicare's IRMAA for that year. You're not out of it. It's still going to be paid.

But you're going to get a check at the end of the year. Now where Medicare is great, is let's say you didn't pay any attention. They didn't come in and meet with you, didn't meet anybody from key financial at all. Then six, seven years down the line you find out looking through records, you were paying...

PATTI: Much more than you were supposed to...

DAN: ...supposed to be paying. This is why Medicare is wonderful. You file a reassessment, they will look at you from the beginning of when you started Medicare. If you weren't supposed to be paying Medicare's IRMAA at all, they give you the whole check. They refund it all back.

That is… OK, that is the takeaway, everybody. Those of you who are listening, if you are retired, you should really take a look at what your Medicare, what your premiums were and whether you were hit with that additional tax.

For those that do get hit with Medicare's IRMAA, you're going to get a report or social security statement. It's either going to be January… December/January. If you are in Medicare we can tell you already. If you get an envelope package, it's a little bit thicker. You're going to get 11 page report.

The first two are talking about your Social Security benefits. The next nine pages are talking about Medicare's IRMAA, and what you can and can't do.

If folks want to do that, how do they go about getting that…

It's literally contacting Social Security, going online. I call it revaluation, someone will call it reassessment. I believe it's H 31. I forget the actual number of the form.

PATTI: One of the things that we were talking about offline, and you've said it a couple of times here, Medicare is great. It's the best system out there. It's making sure that you have the right coverage. You mentioned their website, that the website is actually a lot more robust than people realize.

DAN: That's another reason why we encourage people to meet with a financial professional. One of the parts of Medicare is prescription drug coverage. When you get prescription drug coverage, here's the big thing that everyone's freaking out about, going on a tangent sort of.

PATTI: Yeah, go for it.

DAN: While everyone's working, there is no decision on your health care. Unless you're a sole proprietor, small business owner. You go to work, your company pick a role plans, money comes out of your paycheck, you don't even take two thoughts to what's really going on.

Once you go on to Medicare, it's 100 percent you. You've got to make all the decisions. Now when you buy a prescription drug plan, or even if you go on a Medicare Advantage plan that rolls your medication coverage with inside the plan, you still have to, on your own match the medications you're taking to what the insurance company will provide for coverage, or formulary.

The best site on the face of the earth for this is Actual CMS.gov. You go to Part D. Sorry, I keep talking with my hands. You go to Part D [laughs] , you click on Prescription

Drug Finder. You don't even have to put your real information in. You can put in fake information, just please put your real medications in. Then they're going to want to know your zip code.

You're going to list all of your medications. They're going to tell you which is the most robust plan which covers the most of your drugs. Then they're even going to tell you which pharmacy you need to go to, for access to all the medications. You can't get that anywhere else.

PATTI: That is fabulous, and that is so important because when we talk about the cost of health care, it really comes down to the prescriptions, doesn't it?

DAN: We talked about two sides of the house. Original Medicare, Medicare Advantage. I'm not saying that you're not correct. You are 99.9 percent correct. The largest cost is somebody that goes on to Original Medicare and doesn't get what is known as Medigap Plan G policy. Can't buy F anymore.

Let's say you still want to get a supplemental plan, but you get A. There's this little thing called the access charge. The access charge is what physicians can charge you on top of the bill. Now G covers it. But if you don't have G, you don't have it. Now think of it. A doctor goes in and does a heart transplant. How much are they charging?

We don't know, we could be hundreds of thousands of dollars. We have no concept, but you're going to get hit with a 15 percent bill unless you have this coverage. Take that example out because we have it covered through G Plan, because if they met with key financial…some savvy financial advisor, you are 99.9 percent accurate. Your biggest costs are your prescription drugs.

PATTI: Even with the G Plan, even with terrific coverage, people are still experiencing significant thousands and thousands and thousands of dollars of out of pocket costs.

DAN: Med drugs.

PATTI: Because of the drugs.

DAN: 100 percent.

PATTI: I think it's fascinating. We were talking about the most expensive disease. The most expensive disease is as you said…

DAN: Type 2 diabetes.

PATTI: Type 2 diabetes.

DAN: Keep eating carbs. Carb up.

PATTI: Boy, it is amazing. Folks, most of us think it's cancer. Actually cancer's also very expensive.

DAN: Yes, but there's a key reason why cancer isn't as expensive as Type 2 diabetes. Now to put you on the spot.

PATTI: OK. Tell me.

DAN: Because you die.

PATTI: Oh, right. Right, that's a...

DAN: You did oncology, you do God's work.

PATTI: Yes, absolutely.

DAN: You were the angels. Unfortunately, in most times looking at people, because we go into nursing homes, we go into assisted livings. That's what we do. You want them. Unfortunately you don't want anyone to ever die. But there is somebody suffering with bone cancer. I want them to die...

PATTI: Oh, it's excruciating just to watch it. It's so painful to watch. We've got the different diseases, we've got the different meds, medications. Sorry, my nurse is coming out, we called them meds. "What meds are you on?"

DAN: [laughs]

PATTI: This wonderful site, you can go on the site and figure out who will cover most of your medications and how much. I think it's interesting because even though the company might cover your medication, they might cover 40 percent of the cost. You're still out of pocket for 60 percent.

DAN: Yes, plus the copay and deductible.

PATTI: Right. This is where the issue really comes into play.

DAN: It also gets worse. I will say, what's happened in the last five to seven years, we can say it's because of the Affordable Care Act. Doctors have become more aware of what they're doing. Let's say you're on Medicare, you have a certain prescription drug plan. You've covered the drugs you're on. Let's say you're 100 percent covered. Nothing's out of pocket.

You have, I don't know. Let's say I'm going to come up with angina just because my mentality. You go into a new treatment. It's the middle of the year. Let's say it's March. You go to the doctor, the doctor says, "OK, here's a med, here's a script for this drug." They're giving you brand name not covered on your plan.

Because it's not part of the formulary. You can't change your formulary, you're now stuck...

PATTI: ...out of pocket 100 percent.

DAN: 100 percent, and it's a brand name. What doctors are starting to become aware of, the very good doctors have been doing it for years, but all doctors are starting to do it. It's brand name or generic. They're writing the script. Then it comes down to what's in your plan so that's the other catch that people have to be aware of.

When you retire, you don't just let yourself go, and go to Denny's every single breakfast and go to Chick fil A even though it's fantastic. Go to Chick fil A for [laughs] lunch every single day. You have to be in health because this is going to impact your overall retirement plan as well.

PATTI: I thought it was fascinating. We were talking offline also about Obamacare, and all of the different little nuances in Obamacare that are affecting Medicare, prescription drug plans, etc. Let's talk about that.

DAN: The big thing that happened there was the extension of patents. It is not just the Affordable Care Act. President Bush had a hand in this...President Bush first...there's a tier structure when we talk about medications. Tier structures a very simple. Tier 1 is generic drugs. They're the cheapest medications you can get. Tier 2 are lower brand names, higher generics.

Tier 3, our brand names and the way it used to be covered was, you paid 5 percent for copay plus your deductible back with George Bush was, I believe, roughly $1.75 to $2.25.

You'd have to pay for your deductible out of pocket first before your insurance kicked in. For every generic, you paid five percent. Every Tier 2, you paid 12 to 15 percent. Every brand name, you paid 25 percent. Everyone wanted generics. He then created a new tier structure, Tier 4. Those were for living organisms.

PATTI: Which we all are.

DAN: Yes, and believe it or not, we use penicillin. We use living organisms without even knowing that we're using them. What ends up happening is as that structure goes along, he creates Tier 4. Tier 4 goes from a 25 percent copay to a 32 percent copay.

Now, the Affordable Care Act comes in, and in order to pay for the Affordable Care Act, what they do is they create a fifth tier. That's an injectable. That's your EpiPen.

Now how they end up paying for it is they extend the patents for Tier 4 and Tier 5. What ends up happening is all those copays, the whole tier structure changes.

Generics are a little bit higher than five, but for most plans, they're five percent. Tier 2 drugs are anywhere now between 15 to 20 percent.

Tier 3 drugs are anywhere between 25 and 30. Tier 4 and 5 is over 50 percent.

PATTI: Wow. You are really out of pocket for a lot of this stuff.

DAN: On top of it, the example that we give is rheumatoid arthritis, Enbrel. Enbrel, I used to use as an example all the time.

I used to carry it in my wallet with the day's. Everyone has the day's price of gold. I would show everyone, here's today's price of Enbrel [laughs] .

The reason why Enbrel works is it actually helps what is known as rheumatoid arthritis. What happens once you take Enbrel, is Enbrel changes your cells.

It allows you to be able to function. You no longer have pain. The problem is once you come off Enbrel.

PATTI: You're back to square one, maybe even worse.

DAN: It's worse because your cells change.

PATTI: Yes, right.

DAN: Where I live, Boston Herald wrote an article about it in 2014. I was called in, discussed it, and had to explain to them what happened.

There was a gentleman by the name of Ken Haggleson. He's a nobody. He's a nobody. He's just a dock worker, retired, lives in Dorchester. It's, at the time, it's been gentrified, but at the time, blue collar work. He went into his local pharmacy. He was paying $40 a month for Enbrel. He went in June and in July, his Enbrel was $880.

PATTI: I'd heard about this story.

DAN: What happens is, Enbrel, because of the patent extensions to afford the Affordable Care Act, the makers of Enbrel awarded everybody by jacking up the prices to about $65,000 a year.

PATTI: Right. Unfortunately, because of the patent extensions, there's no competition.

DAN: No competition. He's stuck. His argument is, there is no generic. That doesn't exist. The only drug I can take is Enbrel.

PATTI: If I go off of it, I'm going to be...

DAN: I'm going to die a painful death. What do I do? There's literally nothing he can do.

PATTI: Wow. I understand that the pharmaceutical companies need to be able to charge a certain amount of money, retain the patents because it takes so long and costs so much money to bring a...

DAN: Yes. The FDA gets in the way.

PATTI: ...bring a drug to market, and so many of them fail. You don't want to take away their innovation, or their desire to go ahead and continue to try to bring new drugs to market. At the same point, it becomes confiscatory if this person is, there's no way he could possibly afford that.

DAN: Not only that, the harder part was when you sit down with the makers of Enbrel, I think it was Merck, their comment was, "Well we have to charge this much. We're the only providers. Think of all the costs we have to do since there's no competition to make all these drugs."

Wait a minute, if you just allowed other companies to make it, the prices wouldn't be so high.

PATTI: Exactly.

DAN: Now, this is where, if you take a look at where we're headed as a government when you talk about the cost of medications, the innovation, the technology, what we're starting to hear from this covered administration, and the former administration was aware. They were talking about it.

I have yet to hear anyone running and I've yet to hear the person that everyone is running against bring the subject up again, which is alarming. The key is, when we talk to people, and we don't. We talk to you. When you come to us, you as a financial professional come to us because we act as a back office, somebody that helps in every aspect of healthcare.

We'll tell you, "OK, they're on these medications. You're going to look at other entity markets. You're going to go to Mexico. You're going to go to Vietnam, you're going to go to Taiwan."

PATTI: I don't know, Dan. I don't know if I want to go to those countries and get my drugs from there.

DAN: We're not arguing that you should or shouldn't, all comes out of price. What can somebody afford? The issue that we have, and it was brought up two years ago, just prior to the last election, because the gentleman was using it as part of his campaign promise. We haven't heard it.

We heard it from the former president, but we never heard it again. Medicare should be able to negotiate with pharmaceutical companies.

PATTI: Sure, that makes sense.

DAN: Other countries have to start fitting the bill for all this innovation. You want Merck's drugs, you want Pfizer's drugs, you're going to help pay off offset the costs. You're not going to let us pay for it all. Then they're going to pump up your country full of the same meds, and you're just going to reverse patent and then sell it back to us.

PATTI: It was interesting you gave an example again, when we were talking earlier about a cancer drug.

DAN: Gleevec.

PATTI: Gleevec, that makes it much...

DAN: It cleans your white blood cells, so you can actually handle chemo.

PATTI: The bad news with Gleevec in the United States is that it costs about $165,000.

DAN: Quote that, last time we checked.

PATTI: A year.

DAN: Yeah.

PATTI: However, if you go to...

DAN: Other countries, it's going to be cheaper.

PATTI: How much cheaper?

DAN: It could be about 5,000 bucks.

PATTI: $5,000?

DAN: We're paying the full freight for all the rest of the world.

PATTI: It seems to me there's a solution out there, right?

DAN: Again, [laughs] we have somebody in the White House currently that mentioned it and then it vanished. We're not hearing it from any other politician. It's alarming.

PATTI: It is alarming. It is really alarming. Especially as baby boomers as we all continue to age, there's going to be a lot of us who are going to be exposed to this issue.

DAN: That's the biggest problem. When you look up baby boomers, there's roughly 73 to 76 million baby boomers. When we look at our United States, the generation before the baby boomers is the greatest generation or the silent generation. There's roughly 42 million of them.

There's the ones collecting Social Security and Medicare and we're being told that those programs are going broke. Now we have 73 to 76 million baby boomers heading towards retirement.

PATTI: Almost doubled.

DAN: How many people in the greatest in the Generation X the next generation? Anybody want to take a stab? Not to put anybody on the spot.

PATTI: Actually it's higher.

DAN: No, it's not. By birth, it's less. It's 62. Immigration is changing the number. What ends up happening is by birth, if you look at what we're experiencing...BYU did a wonderful study on this, back in 2008, called "Demographic Winner."

By 2028, 2029, United States for the first time in the history is the generation that's heading towards retirement. The baby boomers are going to be larger than the generation following them. We're putting all of this onus on the millennials, thinking that millennials are going to bill them out.

Though by birth, they're not bigger, but by immigration, they're bigger same with Generation X, so you're correct. It just not by birth. The issue comes down to when you look at baby boomers when you adjust for inflation. When a baby boomer was 28, 29 years old, making exponentially higher wages.

PATTI: Yeah, absolutely. These kids now, the millennials are underemployed. They're not making the kind of income that...

DAN: They may be doing what they call them side hustlers, gig economy. I'm not going to knock the millennials for being lazy. I'll knock the millennials for not being bright. I can do that all day long. I've got kids in the public school system. I'm sticking a flag in the hill.

PATTI: There we go.

DAN: But they work. They're Uber drivers, they're Uber Eats. Might not be traditional jobs, but they're working. They're not earning enough. Now when you talk about the baby boomers heading towards retirement, there's this medication bill.

Think of it, we are, you could say what you want about our US healthcare system. Anybody want to go toe to toe, it's the best system in the world. Hands down, the best system in the world, you just going to be able to afford it.

PATTI: No question about it. I did my study abroad program. When I was at Georgetown, in nursing, and we did our program in England, and I learned about socialized medicine. Let me tell you, folks, we have it really good.

We have it great, because we do have choice.

DAN: It's not just choice, the grand scheme of things. We're the ones, we foot the bill for all the new technology, all the new advancements, all the new medications. Then they go over to England, they go over to India, they go to Cuba. If it isn't for us, there is no advancement.

Where does the world head when the baby boomers wake up and say, "Hey, wait a minute. I can't afford this. I didn't plan for this. No one told me this. I wasn't expecting this." What's going to happen 2028, 2029, '30 especially in our healthcare field when there's no more money?

PATTI: Dan, there's so much talk about social security running out of money...

DAN: That's never going to happen.

PATTI: Yet, there's not nearly enough being talked about with Medicare, and it's a really big issue.

DAN: It's the biggest issue the nation's is going to face.

PATTI: No question about it. Let's kind of pull this and really drill down to, what should our listeners do? Let's talk strategy. Think forward. We talked about IRMAA, we talked about the fact that the cost of the Medicare is going to be income based.

DAN: Yes.

PATTI: So?

DAN: First off, this is going to sound really weird coming from...We're tech guys, that's all we are...

PATTI: Sure.

DAN: We are guys. It's all men. If you want to join, we love to be... [laughs] This is going to sound really weird. The first two things that we tell everybody to do is walk barefoot for 20 minutes a day, go to the dentist every six months. That's...

PATTI: That's good for your health.

DAN: The reason why the weakest part of your body is the bottom of your feet. Think of what you don't work out is the bottom of your feet. When you have a slip and fall over the age of 73, 74 for no reason, like you're just walking, have slip and fall. You have less than two years to live.

Actually, the reason is you get laid up in bed. What ends up happening is your leg muscles start to atrophy because the weakest part of your body is your feet.

PATTI: That's exactly right.

DAN: Now when you...

PATTI: I've seen it.

DAN: Now you get healthy or you can come off of being bedridden. What ends up happening is all the muscles in your lower back and legs are pulling down your feet, you start walking over hunched, you can't really step because your feet hurt.

They give you those thick shoes, soles, and they give you a walker. You can't circulate the blood. You're dead in two years.

With teeth, if you have cardiovascular disease, it shows up in your gums six months prior to a doctor actually being able to see it. So we went on a tangent. [laughs]

PATTI: Fantastic. This is, listen, you...

DAN: That's the first thing we tell people. [laughs]

PATTI: Tune in for any advice you might be looking for. So great advice...

DAN: The next advice is we can't encourage it enough. Yes, if you're going to head towards retirement, they should be meeting with you 6 to 8 years, we're going to argue because of the way the rules of retirement have changed.

It's not 6 to 8... its do this 20, do this at 25. Do plans that are going to help you in the future. What we argue is very simply, you want to make sure the government doesn't see all of your income.

PATTI: When you say see, we're not talking about hiding it?

DAN: No.

PATTI: We're looking at different ways and strategies to make it so that it's not subject to their calculations.

DAN: Big, so you want to make sure it doesn't show up. The key lines in this year's tax code because of the tax cuts, is line 7 and 2A of the IRS Form 1040. Any income that doesn't show up there, that's a Roth IRA. That's an HSA. That's life insurance.

You want to have that heavy, we're not saying don't use tax deductible, you need that, you need a tax break. Again, it's not all or nothing, you're in either side. That's the beauty of planning for this effectively.

If you're going to wait two to three years and then go on to Medicare. Well, you can't change your income, because Medicare again, looks at your income two to three years behind.

PATTI: It is very interesting for younger people who might be listening to this maybe not even thinking for themselves, but for their parents. One of the things that we tell younger people is don't do the pretax 401k contribution. You should be doing the Roth.

DAN: That's the greatest advice you could possibly give.

PATTI: Yes, it has and there's lots of reasons...I believe, and Dan, you probably agree with this, tax free beats tax deferred every single time and while...If you run the numbers and you make certain assumptions, it could end up exactly the same.

We have this debate internally all the time. We are literally at generational lows in terms of taxes, tax brackets, things of that nature.

DAN: Yes, it's going up, it has to only go up.

PATTI: Our deficit is getting larger and larger, then we've got this looming issue out here with healthcare and so something's got to give. Taxes, these surcharges, they may not call them taxes, but that's what they are.

They're taxes. If you are younger and are listening to this, really think long and hard about how you do your 401k contributions. Remember tax free beats tax deferred every single time, in my opinion, in most situations, again, unique differences, etc. It all comes down to the assumptions.

DAN: Now, to back you up, we don't necessarily get in the debate and simple fact that we have what is known as federal law. When we speak for advisors to the general public or we sit on platforms like T. Rowe Price who's sponsoring us today, they're one of the only financial firms that are advocates of healthcare.

It's an amazing thing, because here's a quick question. I know there's some other people in the room, the maestro, and we have them looking, we will ask them. "Which financial firms helping people plan for healthcare? Anybody know?" There isn't one.

When you take a look at a firm like T. Rowe Price sticking their flag in, when you start looking at where we're headed as a nation, as you mentioned, the federal government, the way they change the rules, the federal government has figured out a way how to pay down the deficit.

PATTI: This is fascinating. Keep talking.

DAN: What we show people is, as you mentioned, the debt deficit, I believe it just broke the $22 trillion mark last week. There's only coincidences with inside the beltway. When you go to Washington, DC with inside the beltway, the highway, it's only coincidence. Nothing ever happens because of chance, because of fact, just coincidences.

It's never factual. What is the amount of retirement assets that baby boomers control? $22 trillion, just a coincidence.

PATTI: Wow.

DAN: When you take a look at what the federal government has done. How they change the rules is you have to have Medicare. T. Rowe Price took the peace, you have to have Medicare, you don't have a choice, and you can't get away from it.

The fact that you have to have it should be fine, and we argue it's a great program. It's not a bad program to have, it's arguably the best. The bigger issue is, it's got the IRMAA surcharges.

They define income is everything on line 7 in 2A. And then, what ends up happening is when your income is too high, it depletes your social security check. We talked a little bit about the Hold Harmless Act. Congress went ahead and they changed. It's called the Medicare Freedom Act.

Yeah, it's the Freedom Act. The only thing it addressed, the only thing, was Medicare's IRMAA. What it states is, "Anybody who enters Medicare's IRMAA is no longer afforded the protection of the Hold Harmless Act."

So once you enter this, you can, if fact, see your Social Security deplete.

PATTI: That's why most of our clients do see their Social Security deplete.

DAN: Deplete. It all comes down to what you show to the government. The advice that you are giving, "Take advantage of Roth. Don't show the government." We're not saying, as you pointed it out, and I'm not a financial professional. No licenses. We don't sell anything. I'm a little ignorant...

PATTI: Objectively.

DAN: I'm a little ignorant when I say, "Don't show the government anything." Doesn't mean go see your Uncle Vinny and hide it.

I'm Italian. [laughs] Don't see your Uncle Vinny and hide it under a mattress or put it in something strange. No, put it in a Roth.

PATTI: Restructure your income.

DAN: Bingo.

PATTI: Restructure. You need cash flow. Let's always remember there's a big difference between cash flow and income. What you need in retirement is cash flow. How do we create cash flow in the most tax efficient manner possible? How can we anticipate, maybe some of the things that may not even hit you right now, but we've got to really have a vision and understand where this thing is probably going.

DAN: What's great is the federal government doesn't hide anything on where this is going. They're telling you exactly where this is going. Your social security check, for the most part, if you're lucky is never ever, ever going to go up.

PATTI: Well, that's clear. Yes.

DAN: Now, if you're unlucky your social security check is going negative.

PATTI: Unlucky in this case are people who did a great job saving money. These are the people who worked, sacrificed and maxed out their 401ks and said, "I'm going to be a responsible American and build up my Nasdaq."

Then you turn 70 and a half, and then you're forced to take the money out and because of that, of course it's taxed but it has a domino effect on everything else. Medicare being one, the deal with the surcharge, more of your social security gets taxed, etc.

DAN: Then you're taxed on social security benefits.

PATTI: I will say a real sidebar thing, folks, if you are listening to this and you're in your 60's, to me, your 60's provide the greatest tax planning opportunity that you're ever going to have. Because for most people, your tax bracket, once you stop working, goes down.

If we are concerned about what happens at your 70 and a half, why not start receiving some of that income? Maybe we'll take you up to the tippy top of the 12% tax bracket or even the 25% tax bracket. But right now, it's not affecting Medicare.

DAN: That's a great idea.

PATTI: We're getting the money out of that environment, which basically will reduce the amount that you are forced to take out when you turn 70 and a half. Therefore, that additional surcharge or that tax on Medicare will be lessened or maybe if we're smart, you won't have to pay it at all.

DAN: That's genius.

PATTI: How about it? Right? That's why taking a holistic approach to all of these issues as it relates to each individual figuring out… and everybody's going to be different.

You might retire when you're 62. Somebody else might retire when they're 64. You might have two incomes coming in. During the working life, you might have had only one. Every situation is very different.

What we do know is, what are the rules now? Where are you likely headed? What can we do today to optimize?

DAN: Fantastic!

PATTI: I'm all about optimization, Dan. Knowing you and knowing this information just makes us better.

DAN: Thank You.

PATTI: I'm so grateful for the information that you've given us today. Strategies, number one, talk to somebody. Long before you ever think you're going to need to be thinking about this. That's number one. Whether it be a financial professional, or you go online.

You go on medicare.gov. You begin to understand what the rules are. In our area, basically the Pennsylvania Department of Aging has something called APPRISE. You can call APPRISE and sit down for free with a counselor.

For those of you who are listening, the 800 number is 1 800 783 7067. Again, it's 800 783 7067. In our area, which is Chester County, there are eight different locations where you can sit down with an APPRISE counselor and go over your personal situation.

They will give you the different choices. They will talk about Original Medicare and then Medicare Advantage. They'll talk about A through L or whatever the different plans are and really help you to figure out what's right for you.

Always keep in mind we're here too. If you have any questions please feel free to go to our website. That's keyfinancialinc.com, write in your questions. Give us a call, our phone number, (610) 429 9050. We're here to help. We really want to make sure that our clients, people in our area, are not going bankrupt for something that was completely avoidable. Just make the right choices. Right?

DAN: Or get the right advice.

PATTI: Get the right advice. Dan McGrath, I can't tell you how much I appreciate you. Making the trip, I appreciate all of the information. We were talking offline folks, we could do this for an entire day. It's amazing, all the little nuances, etc. I will tell you that we will be talking about this whole day with Dan. Again, any questions feel free to give us a call.

Also keep in mind Dan has written not one book but two books. The first one is "Everything You Need to Know about Medicare." The second book, "What You Don't Know about Retirement Will Hurt You!" What he's done in this book is he's integrated this discussion of the cost of healthcare as it relates to your income and your retirement financial security.

Pick up Dan McGrath's book, listen to this podcast. We will be doing another podcast even after this. Folks thanks so much for joining us. It's been terrific and I hope you have a terrific day.

DAN: Thank you very much Patti.