

Medicare: Understanding the Basics

Medicare is the key source of health care coverage for retirees ages 65 and older; however, it's not designed to pay for all health care costs in retirement. Medicare doesn't cover many items, so it's important to understand what costs you'll still be responsible for as you consider your health care expenses in retirement. For more information or to determine whether specific items are covered, please refer to Medicare.gov.

Standard Medicare Components	Description and Covered Expenses	Estimated Out-of-pocket Costs (2020)*	Expenses Not Covered
Part A Hospital insurance	Covers medically necessary inpatient hospital care (including rooms, meals, general nursing and drugs), skilled nursing facility care, some nursing home care (if following an inpatient hospital stay) and hospice care	Average monthly premium: \$0¹ Benefit-period deductible (days 1-60): \$1,408² Responsible for copayments/coinsurance (must pay coinsurance for stays >60 days)	Long-term-care costs Medicare premiums, deductibles, coinsurance and copayments
Part B Medical insurance	Covers medically necessary doctor services, outpatient medical care, durable medical equipment, some preventive care and other medically necessary services Part A doesn't cover, such as ambulance services; cardiovascular, cancer and diabetes screenings; and laboratory services	Average monthly premium (for new Medicare enrollees): \$144.60^{3,4} Annual deductible: \$198 Premiums vary based on participant's income. Responsible for copayments/coinsurance (For example, coinsurance may include paying 20% of all outpatient hospital services.)	Routine dental care and dentures Routine hearing exams, fittings for hearing aids, and hearing aids Routine eye exams, glasses and contact lenses (unless after cataract surgery) Cosmetic surgery
Medicare-approved Insurance Company Plans			
Part D Prescription drugs	Coverage is offered by Medicare-approved insurance companies; each plan has its own list of covered drugs.	Weighted-average monthly premium: \$42.05^{4,6} Standard annual deductible: \$435⁵ Premiums vary based on participant's income, insurance company and plan. Responsible for deductibles, copayments and coinsurance	
Medigap (Medicare supplemental insurance)	Eight standard options for new enrollees (Plans A–N) offered by Medicare-approved insurance companies Coverage varies by plan but is designed to cover expenses not covered by Parts A and B, such as copayments and coinsurance. If you have Medicare Advantage, you do not need Medigap.	Plan G median monthly premium: \$161⁷ Premium is in addition to Parts B and D premiums. Premiums, copayments and coinsurance vary based on state of residence, insurance company and plan.	
Part C Medicare Advantage	Offered by Medicare-approved insurance companies in place of Medicare Coverage depends on the policy but typically combines Parts A, B and potentially D, as well as other potential out-of-pocket costs.	Weighted-average monthly premium: \$36.21⁸ Premium is in addition to Part B premium. Plans may or may not include prescription drug coverage. Premiums, copayments and coinsurance vary based on state of residence, insurance company and plan.	

*Source: Medicare, Kaiser Family Foundation, Edward Jones estimates.

1 You must have paid 40 quarters of Medicare tax while employed to receive premium-free Part A. If paid fewer than 30 quarters, the premium is \$458/month. If paid 30 to 39 quarters, the premium is \$252/month.

2 A benefit period begins when you're admitted and ends when you have not received inpatient or skilled nursing facility services for 60 straight days, at which point a new benefit period (and, therefore, a potential deductible) begins. For stays of 61 to 90 days, coinsurance is \$352/day. For stays of more than 90 days, coinsurance is \$704/day (up to 60 days over your lifetime). Beyond any lifetime reserve days, you pay 100% of all costs.

3 If you delay filing or refuse Part B when you become eligible, there could be a 10% premium surcharge for each year you are eligible but not enrolled.

4 The average monthly premium is based on single taxable income of \$87,000 or less or joint taxable income of \$174,000 or less. For incomes above these levels, premiums will be higher.

5 There are initial coverage limits that average \$4,020 (including deductible), after which the individual is responsible for 25% of branded and generic drug costs (although the entire cost of branded drugs counts toward your out-of-pocket maximum), until reaching the maximum out-of-pocket amount, averaging \$6,350 in 2020.

6 The national base premium is \$32.74, from which insurance companies determine their premiums. There could also be a late-enrollment penalty of 1% of the \$32.74 for every month you delay filing for Part D after you become eligible.

7 Plan F had been the most commonly selected plan, as it had the most comprehensive coverage, but it was eliminated for new enrollees in 2020. Plan G covers most items that Plan F covered, with the exception of Part B deductible. No new Medigap plans will cover the Part B deductible.

8 The premium is the average monthly plan premium (not weighted by actual plan enrollments) and also includes a Part D premium.

Pre-Medicare Checklist

Before taking Medicare, you will have numerous factors to consider. We recommend you work with your Edward Jones financial advisor to determine how health care costs could affect your overall retirement strategy.

1. Outline Your Retirement Goals – Understanding your retirement goals, such as when you want to retire and what retirement looks like to you, can help determine what your expenses may be and if you have enough outside income sources, including investment income, to cover these expenses. If you plan to retire before age 65, you may have a gap in health care coverage if it isn't provided by a former employer. If this is the case, you may need to purchase health insurance to ensure you're covered until you're eligible for Medicare, and you may be subject to underwriting.

2. Know the Important Dates – Medicare has a seven-month initial enrollment period beginning three months before the month you turn 65. If you don't enroll during the initial seven-month period, you could be assessed penalties for delaying. You also might receive late-enrollment penalties for not enrolling in Part D when first eligible. However, if you plan on working past age 65 and have group health care coverage through your employer, you may be able to delay enrolling in Medicare, instead enrolling during your Special Enrollment Period.⁹ This may be important if you still want to contribute to a Health Savings Account (HSA) while you are employed, as you cannot contribute to an HSA once enrolled in Medicare.

3. Evaluate Insurance Options – Part D and supplemental insurance options, such as Medigap and Medicare Part C, are offered through Medicare-approved insurance companies. These plans help cover certain costs that Medicare doesn't cover, such as prescription drugs, Parts A and B deductibles, and copayments. However, Medigap has eight different plans for new enrollees (Plans A-N), and there are options for Parts C and D, with costs varying based on the coverage and the insurance company. While the lowest-cost plan may be tempting, it's critical to select a plan providing the appropriate coverage for your situation or your overall out-of-pocket costs could end up being higher. Tools at Medicare.gov can help.

4. Estimate Your Out-of-pocket Health Care Costs –

After deciding on the type of coverage you desire, estimate your out-of-pocket expenses, including the costs for Parts A, B and D and any additional coverage you selected in Step 3. Importantly, Medicare premiums for Parts B and D are tiered based on your modified adjusted gross income (MAGI), with income over \$87,000 (single) or \$174,000 (joint) subject to premium surcharges (referred to as income-related monthly adjustment amounts). If you will be subject to these higher premiums, consider talking to your tax professional to see whether there may be opportunities to reduce your MAGI.

Additionally, since there are many items Medicare does not cover, which vary depending on the supplemental coverage you select, be sure to include those potential costs in your estimates. Again, Medicare.gov has resources to help get you started.

5. Consider Your Options for Covering Potential Long-term-care Costs –

Since Medicare does not cover long-term-care costs, it's important to develop a strategy to ensure this potential need is covered. Several insurance options can help address where care is administered and how to pay for the costs.

6. Develop Your Retirement Strategy with Your Financial Advisor –

To prepare for rising costs, a portion of your portfolio should be allocated to growth and rising-income investments. But health care is just one of many important factors – such as when to take Social Security and how to generate sufficient income during retirement – to review prior to your retirement. Your Edward Jones financial advisor can work with you to better understand your desired retirement lifestyle, estimated expenses (including health care) and income sources to develop a retirement strategy to help you achieve your goals.

⁹ You may also be able to enroll during an eight-month special enrollment period if you are covered under a group health plan through an employer and want to sign up for Parts A and B when you terminate service from your employer and leave the group plan. The special enrollment period is two months for Part D. Late-enrollment penalties may not apply in these cases.

While this information is believed to be accurate at the time of publishing, its accuracy and completeness are not guaranteed. You should rely on Medicare for complete program details. For more information on Medicare, visit Medicare.gov.

Edward Jones does not offer health insurance; however, we believe discussing the impact of health care costs within your retirement strategy is important, especially considering that rising health care costs may affect many investors approaching retirement.



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