

Three key things to understand about Medicare

Medicare is the most important health-care resource for those 65 and older, but most seniors find navigating the program and its multiple plan choices confusing.* More than 50 million Americans are enrolled in Medicare today, and that number will surpass 80 million in 25 years as more baby boomers retire. The federal government spends more than \$5600 billion each year on Medicare benefits. Since Medicare is a key component of meeting health-care needs in retirement, it is important to understand how the program works before enrolling. Reviewing some key elements of Medicare will help you get started.

Eligibility requirements

- Age 65
- U.S. citizen or legal resident who has resided in the United States for a minimum of five years
- Worked at least 10 years in Medicare-covered employment

Understanding the basics

Part A Hospital Insurance 	Part B Medical Insurance 	Part D Prescription Drug 
COST Generally no premium	COST Base premium of \$134/month Premiums can increase at certain income levels	COST Offered by private insurance companies approved by Medicare
COVERAGE Hospital inpatient care Home-health care Hospice care Limited nursing home care <i>No coverage after 100 days per benefit period</i>	COVERAGE Doctor visits Outpatient procedures Lab tests, therapy, X-rays	COVERAGE Optional coverage to help meet the costs of prescription drugs
ANNUAL DEDUCTIBLE \$1,340 hospital inpatient	ANNUAL DEDUCTIBLE After the \$183 deductible, you pay 20% of costs No annual limit on out-of-pocket expenses	ANNUAL DEDUCTIBLE The maximum annual deductible cannot exceed \$405

* 2014 study from the Kaiser Foundation



Enroll at the right time

To avoid potential penalties and coverage gaps, it's critical to understand how Medicare enrollment works. Most individuals should consider enrolling during their initial enrollment period (IEP), the 7-month period around their 65th birthday. If you're already receiving benefits from Social Security, you're automatically enrolled in Part A and Part B starting the first day of the month you turn 65.

Initial enrollment period

File during the first 3 months
Coverage begins on the first day of your birth month

File during your birth month
Coverage begins the next month

File any time during the last 3 months
Coverage begins two months later

General enrollment period (GEP)

If you weren't automatically enrolled and you missed your IEP, you can still apply for Medicare Part A and/or Medicare Part B during the general enrollment period, which runs from January 1 to March 31 each year. If you choose this enrollment period, your coverage begins in July.

Special enrollment period (SEP)

If you're covered under a group health plan based on current employment, you have a special enrollment period (SEP) to sign up for Part A and/or Part B any time as long as you or your spouse (or family member if you're disabled) is working and you're covered by a group health plan through the employer or union. This enrollment period is only available if you are working for a company with more than 20 employees. The eight-month special enrollment period starts the month after the employment ends or the group health plan insurance based on current employment ends, whichever happens first.

Penalties for missed enrollment deadlines

Medicare imposes late enrollment penalties to encourage retirees to sign up when enrollment is available. Your monthly premium may go up 10% for each full 12-month period that you could have had coverage, but didn't sign up for it.

Although your Part B premium amount is based on your income, your penalty is calculated based on the *standard Part B premium*, regardless of your income.



You may pay higher monthly premiums depending on your income

2017 Medicare Part B premiums start out at \$134 a month.*

Singles	Couples	Premium
< \$85,000	< \$170,000	\$134.00
\$85,001–\$107,000	\$170,001–\$214,000	\$187.50
\$107,001–\$133,500	\$214,001–\$267,000	\$267.90
\$133,501–\$160,000	\$267,001–\$320,000	\$348.30
> \$160,000	> \$320,000	\$428.60

Source: Centers for Medicare & Medicaid Services. Income based on Modified Adjusted Gross Income (MAGI), which includes tax-exempt interest income. MAGI is based on income reported on the tax return from two years prior.

* Note that due to a “hold harmless” provision, some Medicare beneficiaries will pay a slightly lower premium. A hold harmless provision in the Social Security Act disallows an increase in the Medicare Part B premium for qualifying Social Security recipients if their cost-of-living adjustment is not large enough to cover the increase in the Part B premium.



Supplemental coverage is critical

Since original Medicare includes deductibles and coinsurance that could lead to significant out-of-pocket expenses in retirement, it’s important to consider supplemental insurance to cover these costs. There are two options to consider — a Medicare Advantage (MA) plan (otherwise known as Medicare Part C) or Medigap coverage.

Medicare Advantage plans

Medicare Part A, Part B, and often Part D coverage are bundled together in one plan. These private plans generally offer additional benefits such as vision, dental, and hearing. Some Medicare co-payments and deductibles are eliminated, and there are also limits on annual out-of-pocket expenses (cannot exceed \$6,700 per year). Most plans offer coverage through a health maintenance organization (HMO) or preferred provider organization (PPO). HMO plans generally require the use of health-care providers within the plan’s network. PPO plans do not require that you see in-network providers or obtain a referral to consult a specialist.

Medigap policies

Private insurance companies offer these plans to cover certain expenses not covered by Medicare such as deductibles, copays, and uncovered services. Premiums will vary depending on the area and type of plan and are paid separately from Medicare Part B premiums. Medigap policies do not usually offer prescription drug coverage. Consider enrolling at age 65 since you cannot be charged a higher premium based on your health situation. If you enroll later, you may be charged a higher premium if you have pre-existing health conditions.

Medicare Advantage (MA)	Medigap policy
Lower premiums but potentially more out-of-pocket expenses; average monthly premium in 2017 is \$31.40*	Premiums range between \$150 and \$200 a month, but out-of-pocket expenses may be less
May save money unless you need frequent appointments or treatments	May save money for people needing high-cost or frequent care
Plans — especially HMO plans — will restrict coverage to eligible provider networks	Use any health-care provider who accepts Medicare; no referrals for specialists are needed
No denial of coverage for pre-existing health conditions	May be denied coverage, or charged a higher premium, if you miss the initial enrollment period
Benefits may change annually; you remain in the plan unless you choose to opt out	Benefits usually don't change; guaranteed renewable, assuming the policy is paid
Some plans include dental and vision	May be more flexible for those who travel out of state

* Centers for Medicare & Medicaid Services.

“Donut hole” means higher costs for some

Some enrollees in Medicare Part D may incur increasing out-of-pocket costs due to a drug coverage issue known as the “donut hole.” This is a coverage gap in the Medicare Part D system where after spending a certain amount for medications, the percentage amount the beneficiary is liable for increases dramatically. For example, after the deductible, beneficiaries are responsible for paying 25% of total costs up to roughly \$3,750 in total annual costs. For the next \$4,000 (roughly) in costs, they will pay 44% of the total cost for generic drugs and 35% of the total cost for brand name drugs. A provision in the Affordable Care Act closes this “donut hole” by 2020 so beneficiaries will be responsible for paying 25% of costs up to the point where catastrophic coverage begins.

Plan for health-care expenses

Future health costs are a critical component of a retirement plan. Health-care costs have been rising faster than inflation and wages for many years, and that trend is likely to continue. In addition, people are living longer and will likely need more health services in the future.

When considering health coverage in retirement, it's important to assess your personal health conditions and the potential for significant out-of-pocket expenses. Research available Medicare plans in your area and be mindful of important deadlines.

As with any planning decisions, securing professional advice from an expert who understands your individual situation can help.

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