INTRODUCTION TO RETIREMENT INSURANCE

When you retire your insurance needs will change. You will need to change both the way you think about insurance and what insurance policies you have.

Every person's insurance needs are different. It would be very presumptuous of me to pigeon-hole every person and try to make one policy meet everyone's needs. What you will find in this book is information about Medicare Supplement insurance. Your rates will vary depending on several variables. This chapter gives you an idea of what you should be investigating.

Baby Boomers were teenagers during the "Happy Days" of the early 60s. They remember the Beach Boys and Righteous Brothers. As young adults they Dreamed of Jeannie and wondered if Gilligan would ever get off that island.

They watched in horror, as Walter Cronkite announced the death of President Kennedy. Two years later, they saw his replacement, Lyndon Johnson; sign the legislation that created Medicare.

On January 1, 2010 the Baby Boom generation started to enroll in Medicare. As a group, they are still active and healthy. As they age, their bodies will start to have more problems. Already, the number of knee replacement surgeries is on the rise. After an active lifestyle, Baby Boomer knees are wearing out. As they reach 65 they will have to change how they pay for these surgeries and other medical bills.

Along with other changes during retirement, they will have to pay close attention to their new health insurance. The "free" Medicare they enrolled in when they retired is not free of potential liabilities.

In most cases, Medicare will pay about 80% of your medical bills. You are still liable for deductibles, co-insurance and co-pays. One thing that Medicare does not have that you may be used to, is an Out-of-pocket cap. Whether your medical bills are $ 1000 or $ 100,000 you are responsible to pay 20%.

If your only problem during the year is a twisted ankle, you are doing something right. Accidents can happen to anybody. Accident or not, the E.R. will still charge you. Let's assume the final bill is $ 1162. If you have Medicare B you will only have to pay $ 362. That is $ 162 for the deductible and $ 200 for the co-insurance. Medicare would pay the other $ 800.

A Medigap plan would be an inefficient use of your money for that year. You would be better off to use the money that you would have spent in premiums to pay the doctor directly.

However, if you have to have heart surgery and the final hospital bill is $ 51,132. Your portion of the bill will be much higher. You would have to pay the $ 1,132 Medicare A deductible. You would also be responsible for 20 % of your hospital bill. That would be another $ 10,000 that you would have to pay from your retirement savings. In total, you would have to pay the hospital $ 11,132. That figure does not include the costs of your doctor's visits or your prescription medications. It is just your hospital bill.

Medigap will pay the $ 11,132 that Medicare Part A does not. Depending on the Medigap plan you have, it will also help with your doctor's bills. You will need a Medicare Plan D (PDP) to help with your prescription drugs.

In this case, a Medigap plan would pay for itself several times over in this situation. It would justify spending money on premiums for those years you do not need it.

A car accident requiring a lengthy hospital stay and several medical procedures could run your final bill to $ 101,162. Medicare will pay a significant chunk of that but you will still be personally liable for what Medicare does not pay.

The health insurance you used to have probably capped your out-of-pocket liability at around $ 5000 plus your deductible. Assuming you had a $ 2000 deductible at age 64 your total liability for being in the wrong place at the wrong time would be capped at $ 7000.

Medicare has no cap. Do the math for yourself. If the above accident happened to you, it would leave you with a bill of $ 21,162. That is a lot of money. To quote a famous comedian, "I don't care who you are!"

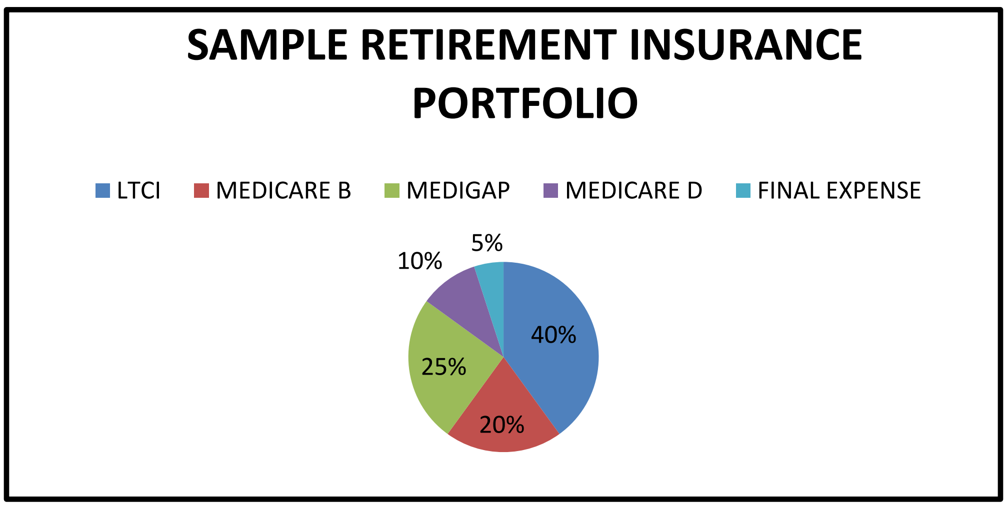
There are two ways you can pay that bill.

1. **OUT-OF-POCKET**

You will be allowed to pay the hospital from your savings. I guarantee that if the money in your retirement savings account spends, the hospital will be glad to accept it. They do not care whether the money comes from an insurance company or your bank. All that matters to them is that they get paid.

If you have no savings, you can possibly make a payment arrangement with the hospital to pay them something from your Social Security or Pension each month. Speak with the hospital's business office. They may be willing to allow you to make installments on your bill. I cannot speak for every hospital but many will.

2. INSURANCE



With apologies to the politicians who would have you believe otherwise, you don't have to have health insurance to get health care. Health insurance is just the most commonly used tool to pay for medical bills. You can use cash if you choose. You didn't really need all that nasty money cluttering up your bank account, did you?

If you elect to use insurance, the chart above illustrates how premiums for a standard retirement insurance portfolio can be used. As you review the breakdown, remember, this is only a sample. Your needs may be different.

The purpose of this chart is not to tell you what percentages to use when setting up your insurance budget. My purpose in this chart is to encourage you to see how all the parts of your insurance portfolio are inter-linked.

Too often I see where people have purchased insurance without considering how it relates the other types of insurance they have. This leads to duplicate insurance coverage in some areas and no insurance protection in others. It also leads to people saying, “I’m insurance poor.” When I hear that phrase I know that the odds are 80 % or greater that I am speaking with a person who has not taken the time to analyze their insurance portfolio.

LONG TERM CARE INSURANCE

Also known as LTCI, Long Term Care insurance pays your home health care, assisted living or nursing home expenses in your future years. After you have considered your probabilities of a future need for assistance and its cost, you may decide that LTCI is just as important during retirement as Life insurance was during your working years.

LTCI was in the TIB Tip’s spotlight during the month of February, 2011. There are several posts regarding LTCI in the Long Term Care category of www.tibtips.com.

Private LTCI is often the most expensive of all the types of insurance you need during retirement. If you wait too long, it could easily be as expensive as all the other insurance products you need, combined. Like life insurance, the younger you are when you purchase it the less expensive it will be. If you are making financial plans for your retirement years, I highly encourage you to lock in a premium as early as you can.

Since the focus of this book is Medicare Supplement insurance, I will leave the discussion of Long Term Care insurance to another volume in this series.

MEDICARE B

Medicare B is the part of Medicare that pays for the largest chunk of your doctor’s bills. It is the part of original Medicare that pays your physician’s bills for his/her services. It limits how much your doctor may charge for each procedure and pays 80% of that figure after you have paid the annual deductible.

If your doctor does not accept “Medicare Assignment,” he/she is free to charge an additional 15% above the Medicare approved amount. This is called an “Excess Charge.” I discuss it later in the book.

Part A of original Medicare will cover the hospital bills of all Americans who have paid Medicare taxes during their working years and are qualified for “free” health insurance.

Medicare B requires each participant to pay a premium each month. In many cases, people elect to merely have the Medicare premium withheld from their Social Security retirement benefits.

Medicare B’s monthly premium is subject to change each year. The amount of your premium will be based on the income you earned 2 years previously. You may be wise to work with your tax preparer when you are 63 & 64 to avoid unpleasant surprises when you are age 65 & 66 if your income borders on one of Medicare’s breakpoints.

The premiums for 2011 are based on your taxable income for 2009. You can get an idea of what you will be paying in the chart below.

Individual Tax Return	**Joint Tax Return**	**Anticipated Premium**
$85,000 or below	$170,000 or below	$115.40
$85,001–$107,000	$170,001–$214,000	$161.50
$107,001–$160,000	$214,001–$320,000	$230.70
$160,001–$214,000	$320,001–$428,000	$299.90
above $214,000	above $428,000	$369.10

<u>MEDIGAP</u>

Medigap pays the portion of medical bills that Medicare does not. You can get plans that pay everything. You will never again have to pay anything for medical treatment. Your other option allows you to get a plan that only pays a portion of what Medicare does not. Those plans leave you with a share of the bills. Obviously, those plans are going to be less expensive.

<u>Medicare Supplement</u> is also referred to as Medigap. I try to use the term Medigap as often as possible to avoid confusion with Medicare Part D, (prescription drug plan.) It is also referred to as a Medicare Supplement.

In the past you were "enrolled" in your health insurance plan at work. Medicare, uses the same terminology but with a different meaning. You will have to learn different definitions of terms when you become eligible for Medicare.

Medigap has two "enrollment" periods. During those periods, you are guaranteed approval, regardless of your health. That does not mean that you cannot get Medigap outside of those "enrollment" periods. It just means that your health is a consideration.

Except for Open and Special Enrollment periods, Medigap plans are subject to medical underwriting. Underwriting criteria is not as strict as it was before you retired. It will, however, eliminate people with severe medical problems. The best bet is to obtain a Medigap when you first enroll in Medicare B during your Open Enrollment Period.

You are only guaranteed a Medigap plan if you apply during your Open Enrollment. Your open enrollment is generally going to be the 3 months before the month of your 65th birthday, the month of your 65th birthday and 3 months after the month of your birth.

If you wait until after that window closes to get a Medigap plan, they are still available assuming you can medically qualify. Your other option for guaranteed approval is to apply during a Special Enrollment Period if you qualify. You will learn what those are later in this book. If you wait until you are sick to get a Medigap, it will probably be too late.

Here is an insurance hint. As time goes by, you may find it necessary to move from one insurance company to another. Never cancel an existing insurance until a new one has been approved. An application is not the same thing as a policy. Request and effective date a month or two in advance. Give yourself time to look over the new policy before you cancel your old one. Make certain the new policy meets your insurance needs before you cancel the old one.

Remember, your insurance agent is not supposed to cancel your existing insurance plan without your direct instructions. Most insurance companies require written, signed and dated instructions from the policy-holder before they will cancel a policy. Don't assume your insurance agent will cancel your existing insurance policy for you. You will have to cancel it yourself.

Medigap is Guaranteed Renewable. That means that as long as you pay your premium the policy cannot be taken from you. It does not mean that your premiums are locked in. Your premium is likely to adjust each year. As long as you pay your premium, the policy will continue. Don't be scared by what politicians say. An insurance company cannot cancel a Guaranteed Renewable policy based on the insured's health. That is nothing more than a politician's lie.

If the premium rises too much and your health has deteriorated to the point you cannot pass underwriting with a different insurance company, you may be able to switch to a lower cost plan with fewer benefits within the same insurance company. Talk with your insurance agent of record. He/she may be able to help you with that. If your health is still good, you may elect to shop with a different insurance company. If that is what you elect to do, once again, your insurance agent should be able to help you.

MEDICARE D

Original Medicare does not pay for prescription drugs. In 2006 the Medicare D program was authorized. It allowed private health insurance companies, under the guidance of CMS, to pay for prescription drugs.

The Medicare D program is similar to the Medicare B program. It is optional and has a premium.

Medicare D is overseen by the Centers for Medicare and Medicaid Services, aka CMS. They are the ones who regulate the minimum plan standards.

Medicare D plans are sold and managed by private insurance companies. Each company is allowed to modify their plans with more generous benefits but they must include at least the minimum benefits mandated by CMS.

Medicare D is similar to Medicare B in that you may elect to forego the plan when you first retire. That may be tempting if you enjoy good health when you first enroll in Medicare. However, it could be a case of being "penny wise but pound foolish."

Both Medicare parts B and D charge a penalty if you opt out of the program when you are first eligible but join the program at some time in the future. You could find yourself paying more in the future when you are bringing in less income. Before you elect not to enroll in Medicare B and D, think very hard about the potential consequences.

FINAL EXPENSE

During your employment years you may have needed much more life insurance than you do during retirement. Unless your attorney has advised you to carry life insurance for estate planning needs, you may find that the only "need" for life insurance is final expenses.

A Final Expense life insurance policy is designed to pay only for final expenses when you die. It is not designed to pay off a loan, replace income or pay for the education of your children. If you need that type of life insurance during retirement, contact your insurance agent. I know he/she will be happy to help unless you already have one foot in the grave and the other one in a puddle of oil.

Final Expense life insurance is typically $ 15,000 of whole life insurance or less. It is very possible that the large term life insurance policy you had during your employment years can be converted into a Final Expense policy. If it cannot, your insurance agent should be able to help you find the policy for you at a reasonable price.

ANNUITY

There is a type of insurance that is not referred to on the chart. It is called an annuity. I know that during your career the term, "annuity," was often used to describe a financial vehicle that allowed you to accumulate money on a tax favored basis. It was the insurance aspects of the product that provided the tax favored growth. Now that you are retired, you may want to start taking some of that money to help with living expenses.

Annuities are used to make certain that you do not outlive the savings that you accumulated during your career. They also have some estate planning benefits that allow you to leave your savings to heirs when you die without increasing the size of your estate for probate.

During your working years you struggled to raise your family, pay your bills and still save for retirement. Some of us have been able to save more than others. When retirement arrives, you may want to guarantee that your savings are not used up before you die. Life annuities convert your nest-egg into a stream of income that lasts for your entire life and the life of your spouse.

When you retire, if your savings are in another type of fixed interest rate investment and you want to guarantee that your life savings will not evaporate during your life, you may want to consider if an annuity fits within your retirement plan.

On the pages that follow you will find information about the most popular Medicare Supplement plans. This discussion is limited to the more popular plans that are available in the states in which The Insurance Barn operates. For a more thorough discussion of Medigap I would refer you to the CMS publication, "Choosing a Medigap Plan: A Guide to Health Insurance for People with Medicare."

If you do not have a copy of that booklet available, it is available for free download on http://theinsurancebarn.wordpress.com/.