

SMART INSIGHTS FROM PROFESSIONAL ADVISERS

How Do Your Medicare Options Factor Into Your Overall Retirement Plan?

Health care and retirement planning are two sides of the same coin, so you need to understand the Medicare basics and seek the right help to get the right coverage.

By DAVID OLSEN | Investment Adviser Representative | Global Wealth Management | May 6, 2019



If you have a financial adviser, he probably spends a fair amount of time talking about the risks you'll face in retirement.

He'll test for risk tolerance and discuss how your investing philosophy should change as you age. He'll set up an income plan and help find ways to fill any gaps between the income sources you can rely on and what you think you'll need for the lifestyle you want. He may even get into the rising costs of health care — especially long-term care — and how to better provide for those costs.

But what a lot of advisers don't talk about, or help their clients navigate, are the health care coverage options available through Medicare when you become eligible at age 65.

That's a big omission, considering that in a 2018 online survey by the Nationwide Retirement Institute, conducted by The Harris Poll, 7 in 10 respondents said they wished they better understood Medicare coverage. Those pre-retirees and retirees (1,007 adults over age 50 with a household

income of at least \$150,000) are wise to be worried. The Medicare system is notoriously complex, and the decisions you make now can have an impact years down the road. Every choice has consequences related to the premiums you'll pay, the care you'll receive, the flexibility you'll have in choosing providers and more.

Some of the decisions you'll have to make can get pretty nuanced, depending on where you live, what medications you may need and what health issues you have or expect to have in the future. But even choosing between the two basic coverage options — traditional Medicare and Medicare Advantage — requires serious deliberation. And yet I've found that — thanks to bad advice, misleading advertising or simple laziness — retirees often make choices that aren't necessarily informed or in their best interests.

There are pros and cons to each option, of course, which just makes things more difficult.

Breaking Down the Parts of Medicare

With traditional Medicare, you'll get Part A hospital coverage and Part B coverage for doctor visits and other types of outpatient care. You can add a Part D prescription-drug plan at a separate cost. And you may want a supplement, known as a Medigap policy, to help cover out-of-pocket expenses — also at an extra cost. The big pro with traditional Medicare is flexibility: You can go to any doctor or hospital in the United States that accepts Medicare, and you won't need

to get a referral to see a specialist or prior authorization for services.

Medicare Advantage plans, which are administered by private insurers, offer the same Part A and Part B benefits that you get with traditional Medicare. But many include prescription-drug coverage in the plan, and some also bundle in dental, vision and hearing care. The downside is that you typically have to stick to the doctors and hospitals included in your plan's network, and you may need a referral or prior authorization before you can see a specialist or obtain certain services. The pro is the price: Medicare Advantage premiums generally are substantially less than Medicare supplements, and many enrollees are in zero-premium plans. Deductibles and copayments also may be less. And the ease of having an all-in-one plan is attractive for those who don't want to deal with paperwork.

Possible Cons of Medicare Advantage Plans

It's no surprise that Medicare Advantage plans are gaining in popularity. (According to the Kaiser Family Foundation, in 2017, one-third of those eligible for Medicare were in a Medicare Advantage plan.) I don't know a senior who isn't trying to cut costs in any way possible, and the upfront savings on Advantage plans is a big draw for retirees adjusting to life without a regular paycheck and employer insurance. But here's the thing: We find that many retirees who are fine with their Medicare Advantage plans when they're younger and healthy run into trouble

with added medical costs when they get sick and need specialized care.

Let's say you get cancer and want to go to MD Anderson Cancer Center in Texas or the Mayo Clinic in Minnesota. You could be looking at extra costs if those providers aren't covered by your plan's network. If you have a serious or chronic illness, those costs could add up over time.

Another issue is that with Medicare Advantage, your network's providers can change from year to year. So you might even have to find a new primary care physician at some point — or enroll in a different plan.

Remember: With traditional Medicare, you can go anywhere or see anyone who takes Medicare — and that's 93% of all primary care (non-pediatric) physicians.

Can You Change Your Mind?

What happens if you go with Medicare Advantage and, later in retirement, decide you'd be better off with a supplement plan?

You can make that switch during specified enrollment periods — but you'll have to answer some medical underwriting questions if you're more than six months past your 65th birthday and don't currently have qualifying coverage (if you decide to apply for a supplement at age 70, for example, and you no longer have coverage from your employer).

Medigap insurers aren't required to sell you a policy if you don't meet the underwriting requirements, so you

definitely don't want to wait until your health is failing to get a supplement.

The Bottom Line

Clearly, it's important to understand your options before you enroll in any Medicare plan and to consider your potential medical costs over a long retirement. Lower premiums are great, but not if you can't get the care you need.

Just as with every other part of your retirement plan, your adviser should be looking out for your best interests. A retirement specialist can help you run through the various plans available and decide which is best for your needs now and for the long haul.

Kim Franke-Folstad contributed to this article.

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