Medicare and Its Myths – March 2013

In President Obama's 2013 State of the Union Address, Americans listened as Medicare once again took center stage in the health care budgetary debate.

Medicare is an entitlement program designed to help pay for health care costs for seniors aged 65 and older as well as disabled individuals who qualify. Medicare is funded through the Social Security system, meaning individuals who have paid into the Social Security system for a minimum of 40 quarters will qualify for Medicare coverage when they turn 65. In its simplest form, Medicare is broken down into four parts – Parts A, B, C and D, each offering different types of coverage with unique limitations and funding mechanisms. Part A is designed to help pay for costs incurred during a hospital stay. Part B intends to help pay for doctor visits, Part D is exclusive to Prescription Drug coverage, and Part C (also known as Medicare Advantage) provides integrated managed care to help control out of pocket medical expenses.

In the sections that follow we explore some of the most common myths and misconceptions about Medicare and Medicaid to give you a better understanding of these benefits and how they may be affected in the future as our nation's health care system continues to evolve.

MYTH 1: Medicare will cover all of my medical expenses

Medicare is intended to *assist* with senior health care costs, not pay for all of it. Medicare is funded through Social Security taxes paid during an individual's working years. Covered individuals (those who have worked and paid into the Social Security system for a minimum of 40 quarters) and their spouse will typically enroll in Medicare at age 65 during the 7 month window surrounding their respective 65th birthdays.

Medicare Part A is hospitalization coverage and is provided at no cost to covered individuals and their spouses at age 65. Part B, which helps pay for doctor bills and some preventative services, has a monthly premium starting at $104.90 per month and increases based on income levels pre-defined by the Medicare system. Part D is prescription drug coverage and is similar to Part B with monthly premiums based on income level.

Because Medicare does not cover all medical costs, most individuals use a combination of Medicare A and B, along with a supplemental (Medigap) policy, a Medicare Advantage (C) plan, VA health benefits, or an employer retiree health plan. However, fewer employers are offering retiree health coverage so the combination of plans will need to be researched prior to reaching age 65.

Please refer to www.medicare.gov and www.benefitscheckup.org to begin your research.

MYTH 2: "I should spend down my assets so that I can qualify for Medicaid"

One of the most unsettling Medicare myths is that individuals should spend down their assets in order to qualify for Medicaid. Medicaid is a state operated health assistance program for the poor and indigent. It was designed as a program of last resort for those with no other resources. Medicaid is a harsh reality with limited options and pre-defined standards of care and should not be the end goal for families.

However, it can be a reality that someone may suffer a significant long term care need during their lifetime and eventually reach a point where they have exhausted their personal assets. In these cases, Medicaid can take over as the primary payer, to allow that person access to custodial care services. Many skilled care facilities, however, do not accept Medicaid patients, meaning a reality of care may be that the closest facility with an available bed is across the state, or spouses may be forced to stay in different facilities. Therefore, every effort should be made to plan in advance for your later life care needs, whether it be through long term care insurance or other family resources.

MYTH 3: "Medicare will cover my long term care needs"

The term, "long term care," covers a range of care or support provided to help a patient who is typically *not expected to improve or recover* meet their health or personal needs over a long period of time. Much of long term care is not medical in nature, but rather, is assistance with the Activities of Daily Living (ADLs) including, bathing, eating, dressing, toileting, transferring to a bed or chair, or caring for incontinence. Medicare does not provide coverage for this type of custodial care.

Medicare does, however, cover a beneficiary's stay in a rehabilitation center if a number of restrictions are met. There are minimum stay requirements in a hospital prior to the rehab need and the patient must be expected to recover from the incident in order for Medicare to pay for this type of care. This situation is commonly misinterpreted to be the same as long term care.

Health care costs continue to rise and people are living longer, meaning more seniors are likely to need long term care and will need a way to cover the expenses. Unfortunately, many of the individuals who believe that Medicare covers long term care costs don't learn the truth until it is too late to secure any sort of private long term care insurance. To learn more about preparing for a long term care need, please refer to Rinehart Wealth Management's March 2012 newsletter: *Long Term Care Update* found on the News & Information tab at www.rinehartwealthmanagement.com.

MYTH 4: "Medicare is going bankrupt"

The growing debt in the United States is driving one of the most common Medicare myths, that "Medicare is going bankrupt." The Medicare system is comprised of several components, each with different funding mechanisms, making bankruptcy highly unlikely.

Medicare Parts B and D are funded on an ongoing basis through premiums paid by current Medicare beneficiaries and general tax revenues. These components rely on funds that are generated throughout the fiscal year by premiums paid on a monthly basis by those enrolled in the program, and therefore cannot, in effect, "go bankrupt." As long as there are beneficiaries on Medicare Parts B and D, these specific programs can be funded.

Medicare Part A differs in that it is funded through payroll taxes which are directed to a dedicated "trust fund" to pay for its expenditures. The issue here is that with rising health care costs, more baby boomers applying for Medicare benefits, and less people working and paying into the system, funds have and will become limited. However, it is important to remember that all tax revenues go to the federal government who then decide which programs are worthy of receiving funds. Therefore, if Congress determines that the reported balance on the trust fund dedicated for Medicare Part A is insufficient, they have the authority to appropriate funds to cover the deficiency. Because Medicare is a drain on the government's budget, we can expect to see further changes to the Medicare system in the future.

MYTH 5: "I won't be able to get quality health care through Medicare under the new health system"

Rumors have been circulating that the new Affordable Care Act (ACA) cuts Medicare funding drastically, so it will be difficult to find quality care if you are a Medicare beneficiary. It is important to understand that while the funding landscape will experience changes, the Affordable Care Act actually prohibits cuts to guaranteed Medicare benefits.

The new law aims to cut costs to the Medicare system by increasing preventative care measures such as wellness exams and certain screenings and vaccines. The hope is that this will help Medicare beneficiaries avoid costly chronic conditions such as heart disease and diabetes that are a major drain on Medicare's budget. The ACA also encourages coordinated care to cut back on costly hospital readmissions and aims to eliminate Medicare fraud and waste. The goal of these provisions is not only to boost savings to the Medicare system, but also improve the quality of care for Medicare beneficiaries. Some positive results have already been realized.

This newsletter is by no means an exhaustive list of "Medicare and Its Myths." Our goal is to help you plan proactively for health care in retirement, understand your benefits, and stay abreast of ongoing changes. If you have questions about your specific situation, please contact your financial advisor and we will be happy to assist you.