

# Should Federal Retirees Enroll in Medicare?

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Federal employees have numerous questions as they plan for their retirement from federal service. One of the most often-asked questions is whether a federal retiree, a CSRS or a FERS annuitant, should enroll in Medicare when he or she becomes first eligible.

This question is difficult to answer for many federal annuitants. The reason for this difficulty is that most federal employees are eligible to keep their Federal Employees Health Benefits (FEHB) health insurance benefits throughout retirement and the federal government continues to pay on average 72 to 75 percent of the FEHB premiums, identical to what the federal government pays on their behalf for their health insurance premiums when they are employees.

The question therefore becomes: Why does a federal annuitant need to enroll in Medicare when they have full insurance coverage under the FEHB program? This column will attempt to answer this question and will also answer other frequently asked questions, namely:

- When should federal retirees enroll in Medicare and in which parts of Medicare?
- Is there a late enrollment penalty for Medicare and when does the penalty apply?
- Which is “primary” coverage – FEHB or Medicare?

It is important to first review the different parts to Medicare. There are four parts to Medicare – Part A, Part B, Part C and Part D.

- **Part A (Hospital Insurance).** Helps pay for inpatient hospital care, home health care, and hospice care and prescriptions dispersed in a hospital or skilled nursing facility.
- **Part B (Medical Insurance).** Helps pay for covered services received from a doctor, outpatient hospital care, durable medical equipment, ambulance services, and many other health services and supplies that are not covered by Part A. Part B does not pay for most routine dental care, eyeglasses, hearing aids, most

immunizations, or most prescription drugs. Beginning in 2011, Part B covers an annual wellness visit where beneficiaries are provided a personalized prevention plan, including a health risk assessment.

- **Part C (Medicare Advantage Plans)**, formerly called Medicare Choice plans. These plans are offered by private companies that are approved by Medicare. Federal annuitants covered by a FEHB plan do not need Medicare Part C.
- **Part D (Prescription Drug Plans)** which helps pay for outpatient prescription drugs. These plans are approved by Medicare but are managed by private companies. Different plans cover different drugs and may be offered only in specific areas of the country. Federal annuitants covered by FEHB plans usually do not need to enroll in Medicare Part D.

Medicare Parts A and B are called the “original” Medicare. Federal employees are eligible for Part A if they, or their spouse, worked in a Medicare Part A-covered employment for at least 10 years (40 credits), are 65 years or older, and are a citizen or permanent resident of the U.S. If an individual is eligible for Medicare Part A, then the individual and the individual’s spouse is automatically eligible for Medicare Parts B, C and D.

An individual pays no monthly premium for Medicare Part A, assuming the individual has at least 10 years-worth (40 credits) of Medicare-covered employment. Since all federal employees have been paying the Part A payroll tax since Jan. 1, 1983, all federal employees will be eligible to enroll in Part A when they are age 65 and there will be no monthly premium cost. Annuitants age 65 and employees who are working past age 65 are strongly encouraged to enroll in Part A within a few months of their 65<sup>th</sup> birthday. In so doing, this may help cover some of the hospital-related costs that a FEHB plan may not cover, such as deductibles, coinsurance, and charges that exceed the plan’s allowable charges.

Any federal annuitant 65 and older enrolled in a fee-for-service (FFS) plan such as Blue Cross Blue Shield (BCBS), GEHA, or Mail Handlers should seriously consider enrolling in Medicare Part B. Medicare Part B enrollment and one’s FFS plan may combine to provide almost complete coverage for all medical expenses. In other words, between the FEHB plan and Part B, an annuitant would have minimum – probably no – out-of-pocket expenses to pay, including no deductibles, copayments or coinsurance.

Those annuitants who are enrolled in an HMO may not need to enroll in Part B. HMOs provide most medical services with usual small copayments. But some annuitants enrolled in HMOs may want to consider enrolling in Part B as Part B pays for costs involved with seeing doctors outside the HMO network. Part B also pays for costs for non-emergency care in the US if traveling is involved.

The employees with FEHB coverage and who work past age 65 do not have to enroll in Part B when they become age 65. As long as they continue to work in federal service, their FEHB coverage will be primary for medical services such as doctor visits and laboratory services, and they can use their health care flexible spending account (HCFSA) to pay for any out-of-pocket expenses. These individuals will have a special enrollment period (see below under “Medicare Parts A and B Enrollment Periods” #3) when they retire or when their spouse retires to enroll in Part B without paying a penalty.

Unlike Medicare Part A which is free for most enrollees, there is a monthly premium for Medicare Part B. Most individuals will pay the standard monthly premium, but some individuals will pay a higher premium based on their modified adjusted gross income (MAGI).

- **Medicare Part B Premiums/Deductibles.** Medicare Part B covers physician services, outpatient hospital services, certain home health services, durable medical equipment, and certain other medical and health services not covered by Medicare Part A.

The standard monthly premium for Medicare Part B enrollees is \$135.50 during 2019, an increase of \$1.50 from \$134 during 2018. An estimated 2 million Medicare beneficiaries will pay less than the full Part B standard monthly premium amount in 2019 due to the statutory “hold harmless provision”, which limits certain beneficiaries’ increase in their Part B premium to be no greater than the increase in their Social Security benefits. The annual deductible for all Medicare Part B beneficiaries is \$185 in 2019, an increase of \$2 from the annual deductible \$183 in 2018.

Since 2007, a beneficiary’s Part B monthly premium is based on his or her MAGI. These income-related monthly adjustment amounts (IRMAA) affect roughly 5 percent of people with Medicare Part B. The total premiums for high income beneficiaries for **2019** are shown in the following table:

<b>Beneficiaries who filed 2017 tax returns with modified adjusted gross income (MAGI):</b>	<b>Beneficiaries who filed joint tax returns with MAGI:</b>	<b>Income-related monthly adjustment amount</b>	<b>Total monthly premium amount</b>
Less than or equal to \$85,000	Less than or equal to \$170,000	\$0.00	\$135.50
Greater than \$85,000 and less than or equal to \$107,000	Greater than \$170,000 and less than or equal to \$214,000	\$54.10	\$189.60
Greater than \$107,000 and less than or equal to \$133,500	Greater than \$214,000 and less than or equal to \$267,000	\$135.40	\$270.90
Greater than \$133,500 and less than or equal to \$160,000	Greater than \$267,000 and less than or equal to \$320,000	\$216.70	\$352.20
Greater than \$160,000 and less than \$500,000	Greater than \$320,000 and less than \$750,000	\$297.90	\$433.40
Greater than or equal to \$500,000	Greater than or equal to \$750,000	\$325.00	\$460.50

Premiums for high-income beneficiaries who are married and lived with their spouse at any time during the taxable year but file a separate return, are as follows:

<b>Beneficiaries who are married and lived with their spouses at any time during 2017, but who filed separate tax returns from their spouses and with MAGI:</b>	<b>Income-related monthly adjustment amount</b>	<b>Total monthly premium amount</b>
Less than or equal to \$85,000	\$0.00	\$135.50
Greater than \$85,000 and less than \$415,000	\$297.90	\$433.40
Greater than or equal to \$415,000	\$325.00	\$460.50

## **Part D (Medicare Prescription Drug Coverage)**

Generally, it will almost always be to a federal employee’s advantage to keep their FEHB coverage in retirement without any changes. The exception is for those with limited incomes and resources who may qualify for Medicare’s extra help with prescription drug costs. Prior to retiring, federal employees should contact the benefits administrator or their FEHB insurer for information about their FEHB prescription coverage before making any changes.

It is important to note that FEHB prescription drug coverage is an integral part of a federal employee’s total health benefits package. An employee cannot suspend or cancel FEHB prescription drug coverage without losing the FEHB plan coverage in its entirety (in other words, losing coverage) for hospital and medical services which could mean significantly higher costs for those services.

Since all FEHB Program plans have as good or better prescription drug coverage than Medicare, FEHB plans are considered to offer “creditable” prescription drug coverage. Therefore, if a federal employee decides not to join a Medicare drug plan when first eligible but changes his or her mind later and while still enrolled in a FEHB plan, *the individual can do so without paying a late enrollment penalty*. As long as the individual has FEHB coverage, they may enroll in a Medicare prescription drug plan from during the Medicare Part D “open season” (October 15 to December 7 of each year) at the regular monthly premium rate. However, if the individual loses FEHB coverage and wants to join a Medicare prescription drug program, they must join within 60 days of losing their FEHB coverage and the monthly Part D premium will include a late enrollment penalty. The late enrollment penalty will increase each year that one waits to enroll and will be included in the premium each year for as long as coverage is maintained.

## **When Should a Federal Retiree or Annuitant Enroll in Medicare Parts A and B?**

Individuals already receiving monthly Social Security retirement benefits are automatically enrolled in Medicare Parts A and B in the month they become age 65. Individuals who are within a few months of their 65<sup>th</sup> birthday and not receiving monthly Social Security retirement benefits must apply for Medicare Parts A and B by contacting the Social Security Administration. They may do so by either calling 1-800-772-1213 or going online at <https://www.socialsecurity.gov/medicareonly>.

## **Medicare Parts A and B Enrollment Periods**

An individual can enroll during one of the following periods:

1. Three months before, the month, or three months after the month the individual becomes age 65.
2. Between Jan. 1 and March 31 of each year – with coverage becoming effective the following July 1.
3. Within eight months of losing health insurance coverage provided by an employer or union or retiring from an employer providing health insurance in retirement such as the federal government through the FEHB program.

The following examples illustrate:

*Example 1. Larry retired from federal service on Jan. 3, 2019 and will become age 65 in July 2019. Larry is enrolled in FEHB and will be throughout his retirement. Larry needs to enroll in Medicare Parts A and B between April 1, 2019 and Oct. 31, 2019 in order to avoid paying a late enrollment penalty for Part B.*

*Example 2. Fran, age 66, is a federal employee and intends to retire from federal service on Dec. 31, 2019 at the age of 67. When Fran became age 65 in 2017, she enrolled in Medicare Part A but did not enroll in Part B. This is because she continued to work in federal service and is enrolled in a FEHB plan. When Fran retires on Dec. 31, 2019, she must enroll in Medicare Part B between Jan. 1, 2020 and Aug. 31, 2020. She will do so in person at a local Social Security office, bringing with her two items as proof that she continued to work past age 65 and had health insurance through her employer. She needs to bring her last statement of earnings and leave, and Center for Medicare and Medicaid Services Form CMS-L564 (Request for Employment Information). This form is downloadable from <https://www.cms.gov> and is completed by Fran's Personnel Office.*

## **Is There a Late Enrollment Penalty?**

If an individual did not sign up for Part B when he or she was first eligible, then the Part B monthly premium may be higher. In particular, the cost of Part B may go up 10 percent for each 12-month period that an individual could have been enrolled in Part B but did not sign up for it. The individual will have to pay this extra monthly premium as long as the individual has Part B, except in special cases. For those individuals who miss the deadline to enroll in Medicare Parts A and B when they are first eligible, Medicare has an “open season” enrollment for Parts A and B each year between January 1 and March 31 with coverage becoming effective the following July 1. But a late enrollment penalty for Part B (not for Part A) will apply equal to 10 percent per year of the first tier Part B monthly premium amount in effect that year (\$135.50 per month during 2019). The penalty period is measured from the last month the individual could have enrolled in Medicare and July 1 of the year Medicare Part B becomes effective.

## **Which is “Primary” Coverage – Medicare or FEHB?**



A FEHB plan must pay first when an individual is an active federal employee or rehired annuitant. When an individual is an annuitant and is enrolled in Medicare Parts A and B and in a FEHB plan, then Medicare is primary coverage and the FEHB is secondary coverage or Medicare supplement.

FEHB premiums will not be reduced when an employee or annuitant enrolls in Medicare. Annuitants pay the same FEHB premium for the same FEHB plan as active employees. However, once Medicare becomes the primary payer of an individual's healthcare related expense, the individual may find that a lower cost FEHB plan is adequate for their needs, especially if the individual is currently enrolled in a FEHB plan's high option coverage. Also, some FEHB plans waive deductibles, coinsurance, and copayments when Medicare is primary.

Since enrolling in Medicare is considered a "life event", an annuitant or employee can change his or her FEHB plan to any available plan or option at any time beginning 30 days before becoming eligible for Medicare and ending 30 days after the day the individual becomes eligible for Medicare. Changes to one's FEHB plan can also be made during the annual FEHB open season.

## **TriCare Health Insurance Coverage and Medicare**

Those federal employees who are receiving, or who will be receiving, military retirement pay (for active duty or for reserve duty) are or will be eligible for TriCare health insurance coverage. There are different types of TriCare health insurance, including TriCare Standard and TriCare Prime. But at age 65, a military retiree receiving retirement pay is eligible to enroll in TriCare-for-Life health insurance. There is no monthly premium cost for TriCare-for-Life provided the military retiree (and spouse, if applicable) is enrolled in Medicare Parts A and B. This is because when a military retiree becomes age 65, Medicare is considered primary coverage and TriCare is considered secondary coverage.

### **About Edward A. Zurndorfer**

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