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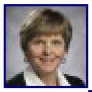
10/19/2016 @ 7:00AM 11,089 views

How To Avoid Making The Top 5 Common Medicare Mistakes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When you retire, do you plan to enroll in Medicare? Most Americans do. After all, we've been paying into the system for all of our working years. Why wouldn't we take advantage of the benefit when we retire?

The problem is this: Medicare is complicated. And many people don't take the time to understand it until it's too late. For example, did you know that Medicare doesn't cover all your health care costs in retirement? You'll have to pick up a good share of the expenses—and unless you plan for them in advance, those costs can eat away at your retirement savings.

So even if you're diligent about saving for retirement, make sure you're accounting for health care costs. And take the time, in advance, to understand your health care options in retirement so you can avoid the five most common Medicare mistakes:

1. You underestimate your share of health care costs. Taking into account premiums, co-pays, deductibles and paying for services not covered by Medicare (such as dental and vision care), Medicare beneficiaries spent an average of $5,368 per year, according to a 2015 Kaiser Family Foundation report. That makes health care one of the top expenses for most retirees—right alongside housing, food and transportation.

Here's what you'll want to consider:

- **Medicare Part A – Hospital coverage:** If you quality for Medicare (you or your spouse paid Medicare taxes while working), you'll pay no monthly premium for Part A coverage in retirement. But you will have to meet the annual deductible (currently $1,288) before Medicare covers hospitalization. Even then, Part A pays about 80 percent of Medicare-approved inpatient costs for the first 60 days. For a longer hospital stay, you'll have to pay a greater share of the cost.
- **Medicare Part B – Non-hospital medical coverage (doctor visits, tests, physical therapy, etc.):** The standard monthly premium for Part B coverage is currently $121.80 per person (although high-income earners pay more, up to three times as much), plus you'll also be responsible for covering the annual deductible of $166. And after your deductible is met, you will typically pay 20 percent of the Medicare-approved amount for most services. This coverage is optional; you might want to wait to begin Part B if you still have qualifying health insurance through your employer or spouse.
- **Medicare Part D – Prescription drug coverage:** Part D plans add prescription drug coverage to Medicare and are offered by one of 26 insurance companies and other private companies approved by Medicare. The premiums vary but averaged about $40 per month in 2016. Most drug plans also have a deductible, which cannot exceed $360 in 2016.

Because the costs can add up fast, make sure you're planning for health care costs as part of your overall retirement income budget, just as you would plan for other essential expenses like housing, food and clothing.

Free Download:
Northwestern Mutual's Guide to Medicare Dos and Don'ts

2. You go out of network with Medicare Advantage. As an alternative to Medicare Parts A and B, a Medicare Advantage plan (also known as Medicare Part C) offers coverage through private insurance companies that contract with Medicare. These plans can be an attractive option for some seniors because the premiums can be lower and the insurance sometimes pays for things that are not covered by Medicare, such as prescriptions and vision and dental care. The potential downside is this: Medicare Advantage plans operate much like an HMO—you have to use their doctors, which can be especially problematic for snowbirds or those who routinely travel. If you go out of network under this plan, you pay a lot more for services.

3. You make financial moves that cause your premiums to increase. Once you've enrolled in Medicare, if your income spikes—even if it's for just one year as the result of selling property, for example, or converting an IRA to a Roth—your premiums will increase for the year(s) following the year(s) in which you exceeded certain income thresholds. That's one reason it's so important to work with a financial advisor who can help you create an income stream in retirement that minimizes the impact on your Medicare premiums.

4. You choose a plan and then put it on "autopilot." When it comes to selecting your Medicare plan, don't set it and forget it. As your situation changes over time, you'll want to re-evaluate your health care plan and providers. For example, if you've been taken off a certain medication or prescribed something new, revisit your Part D coverage (and your chosen carrier) to make sure you're getting the best deal possible for your current needs.

5. You fail to enroll on time. Unlike Social Security, it doesn't pay to wait to enroll in Medicare. In fact, you could be penalized. If you fail to sign up during the seven-month window around your 65th birthday, you may be required to pay permanently higher premiums for late enrollment: The penalty is a 10 percent increase in premiums for each year you delay—for life.

The best way to avoid making these common Medicare mistakes? Be proactive. Estimate your health care costs in retirement, and then talk to your financial advisor. Make sure those costs are included in your overall financial plan as you save for retirement. As you near retirement, take the time to thoroughly evaluate your Medicare options so you're sure to enroll in the plan that meets your needs. And throughout retirement, work with your financial advisor to make sure you're doing everything you can to minimize Medicare costs along the way.

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