

Episode 40: The ABCs of the Medicare Open Enrollment Period

Bob French 00:00

The purpose of Retire with Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. Find out how a plus b plus d can equal c. And sometimes why.

Alex Murguia 00:46

Hello, everyone, and welcome to Retire with Style. I'm Alex and I'm here with Wade. And we'll take you through another podcast extravaganza. But before we do that, Wade any, any stuff happening with you? Are with us?

Wade Pfau 01:05

Yeah, well, I guess there's a lot to talk about. But we should let everyone know this was take two since you really don't know what to say after. We had to

Alex Murguia 01:14

thank you for that. Thank you for that

Wade Pfau 01:16

we're recording on on the Friday before the episode comes out. So when we say this week, it was really last week, from the perspective of the listeners, we had our retirement income challenge, we do these almost every quarter, or maybe it's three times a year. And with the retirement income challenge this week, it's an opportunity for listeners, primarily people thinking about their own retirement planning, to go through the process of taking their retirement income style awareness if they haven't done so already, using our funded ratio tool to look at whether their retirements are on a sustainable trajectory. And then also just asking questions and learning more. And also you talked about the softer side of the the non financial aspects to consider for retirement. And so it's a really engaging week, we had about 250 participants this week. So it's always fun to do that and to interact with the community. And now, a lot of people who attend those retirement income challenges are listeners of the podcast. So it's great to meet people that way.

Alex Murguia 02:19

No, and obviously, we're kind of doing the Hey, guess what we just did, so you can't. So definitely we do about for these a year. And you know, like once a quarter. And no, it's great. It's Think of it like as a juice challenge, right? And we take, we take our listeners through a four day journey, where day one,

we go over the Risa day two, we talk about the interpretations. And we introduced the funded ratio concept. They, they homework as you do the actual funded ratio, day three, the interpretations of it. And they for the softer side of planning. So it really is an actionable four day guide in which we take people soup to nuts into a retirement plan. And this is something we provide for free. I mean, it's sort of way to nine Bob, who is Bob really is the emcee at this point. He's a key member. And we, we enjoyed it, it's a way to kind of interact with the community and in in a funny sort of way. I mean, you look at the year, I mean, we do roughly 1000 financial plans during the course of the year in like four weeks worth of time. So it's kind of a great, a great way to really get get work done, and get people started because you know, ultimately retire with style is a retirement income podcast, but we want to make sure that people move forward. So what we'll do is we'll we'll put a link on the bottom of in the show notes, just if you want to sign up for the next one we don't know when it is it's probably gonna be sometime in the first quarter sign up, and we'll keep it on the list. And we'll keep you posted when when we have a date and all of that. So you can formally sign up and get going. But that's it's kind of a cool thing. I would say when you've probably learned. Obviously, we hope people get something out of it. But we get a lot out of it simply because it's it's our way to kind of put our finger on the pulse with regards to what we're writing and what is actually being asked of us when you say what,

Wade Pfau 04:08

yeah, and seeing how people are understanding or interpreting different things and looking for opportunities to better explain situations or maybe even make improvements to the way we describe different considerations. And if anyone's had been listening to the podcast and didn't know about the retirement income challenge, it just makes sure you get added to our weekly email list that comes every Saturday morning. And if you're getting those weekly emails, the next challenge will not pass you by or you won't have to say hey, I wish I knew about that a week ago. You'll definitely know about the next one if you were not getting those beforehand.

Alex Murguia 04:43

Wade, Wade, that was a great interview. Have you done act? Have you acted before? That was a wonderful

Wade Pfau 04:47

sort of a sales person there. Working on those sales skills

Alex Murguia 04:54

Yeah. You're sort of up your upper register really nicely on that. Oh, by the way, what are we talking about today, man? What are we?

Wade Pfau 05:04

So this is it's going to be a one off episode because we are in the Medicare open enrollment period every year between October 15 and December 7. Individuals who are already part of Medicare have an opportunity to make some changes to what they do with Medicare. And it's been in the news, because we've always you see all these ads for primarily Medicare Advantage plans. And there's some concerns that those commercials are not explaining things fully enough. And so we thought it'd be important to do a one to kind of we can do a longer Medicare arc or health insurance arc at some point. But this isn't

one off episode to just talk about what's relevant for those annual open enrollment periods with Medicare. So that's the topic for today.

Alex Murguia 05:48

We figurative Broadway joke and talk about it for a few seconds then then so can we join Emeth? Wager name?

Wade Pfau 05:56

Yeah, seen his commercials? And then is it JJ from good times? Or? When I was a kid? Yeah, he's got Medicare Advantage commercials go into.

Alex Murguia 06:10

All right, here's one. Here's one. Let's see. Yeah. So resumo. What did he used to pitch?

Wade Pfau 06:16

Baseball player?

Alex Murguia 06:17

Yeah, for baseball? What did he What did he use to promote? Do you remember by any chance? No, the money store the money store? Well, for briefly, what did he do?

Wade Pfau 06:29

Oh, he had diabetes medication.

Alex Murguia 06:32

I always say like diabetes. But we we digress. Right. Although it's a good segue medical medical issues. The other piece, I think this is relevant. I was telling Wade, because we're trying to figure out okay, what's the audience? Right? You don't have to be an open enrollment. I was thinking about this with regards to my parents, frankly. So I think there's something in it for everyone at the very least making sense of the alphabet soup of the Medicare designations makes, makes a lot of you know, I think it's valuable on on a few levels to take it away. Wade,

Wade Pfau 07:06

Well right. And so before we started, Alex was saying we should at least say what all the different parts of Medicare are. And I said, Well, we don't want to go down that hole, we could spend a whole episode just describing that. But there is an alphabet soup of Medicare, that it's important to have some basic familiarity with, you have Original Medicare is part A, which is really the hospital insurance. And then Part B, which is medical insurance. And most everyone is going to be a part of that you most people will become eligible at age 65. There are some circumstances where you could become eligible sooner. But typically, on the first day of the month of your 65th birthday, you could start with Medicare, Part A and Part B, then there's Part D for prescription drug coverage. And if you're in Original Medicare, you could also choose a supplement to help lower some of the out of pocket costs. And then there's this whole alternative as well, that's done through private insurance of Medicare Advantage, which is sometimes called Part C. With Medicare Advantage, you still pay the most people don't have to pay a

part a premium. So we can say that one zero, but you still pay your Part B premium, you may not have to pay anything extra. There are now some Medicare Advantage plans that might even refund part of your Part B premium. But then it does. It's structured differently. It's more like a traditional user, commonly an HMO, or a PPO versus Original Medicare, which is really comprehensive that any medical professional in the US that accepts Medicare wouldn't be part of Original Medicare in a way that you might find them to be out of network with a particular Medicare Advantage plan.

Alex Murguia 08:47

The just a, I'll say it real quick. Like if I was taking an exam, the way I kind of set this up as my mnemonic is part B think of it as basic insurance, you know, a is hospital, but I can't think of anything clever. To start with a, I break your arm, you know, that kind of thing. But Part B basic insurance and Part D I think drugs, you know, prescription benefits. So drugs kind of do the trick for me in terms of figuring this out. It's one of those things, and Part C and the private kind of Medicare goes hand in hand.

Wade Pfau 09:23

Yeah, and we don't want to dwell too much on everything that goes into first enrolling in Medicare because we really do want to focus on what's on everyone's minds in terms of the open enrollment period, and the decisions that people can make during this annual open enrollment period.

Alex Murguia 09:40

And then the last one because we're gonna say these may be Inner Inner, we're gonna interchange these without even knowing medicare supplement, you may hear it as Medigap as well.

Wade Pfau 09:49

It's another name for it and that is only available through Original Medicare and that is something we need to talk about. For anyone who's considering Medicare Advantage. There are some potential kind of side effects of doing that if you wanted to later return to Original Medicare and include a Medicare Supplement as part of that. But that's getting ahead of ourselves a little bit. We'll get to that a bit later in the episode.

Alex Murguia 10:14

Alright, so the annual open enrollment, want to do a little options review of that? Because it can be overwhelming, right?

Wade Pfau 10:22

Yeah, yeah. And because Medicare can be overwhelming, a lot of people do end up treating it as a one time decision, and basically just ignore the fact that they could change some of their decisions each year. And in terms of what it is that you can do during the annual open enrollment period, you can switch back and forth between Original Medicare and Medicare Advantage. If you're in Medicare Advantage, you could choose a different Medicare Advantage plan, as well as return to Original Medicare. Now, there is that caveat, we need to discuss later about the Medicare supplements or Medigap. And then also, what's going to probably most important is your prescription drug coverage, whether you're choosing a Part D plan, or whether you're getting prescription drug coverage through

Medicare Advantage, you can make that annual revisiting of those decisions and choose a different Part D plan, or choose a different Medicare Advantage plan because it has better prescription drug coverage for you, that sort of thing. And that's, that's what you're looking at each year. If you do go with Original Medicare with a relatively comprehensive supplement, that's a pretty popular strategy in practice, then really the only thing you're going to be looking at is do I want to pick a different Part D plan. If you do go with Medicare Advantage, you have that full option of switching to a different Medicare Advantage plan or, again, because perhaps the coverage for the hospital Well, the medical insurance, or the prescription drug piece, because you want something that will give you a better financial outcome.

Alex Murguia 12:01

In a way we're where are we right now in the open enrollment period? When will we? Well, we started seeing those commercials close to October 15. When it started, and don't you think we'll we'll stop seeing Broadway Joe doing these commercials?

Wade Pfau 12:15

Well, December 7 is the end. And then if you any changes you make during this annual open enrollment period through December seventh, your new coverage will begin January 1. And there's really no need for the commercials after December 7, although this is getting more into the weeds. But if you with Medicare Advantage, there's from March 1 to march 31, an opportunity to change your Medicare Advantage plan again. So there may be some commercials hanging on but we're not really going to get into that in today's episode.

Alex Murguia 12:44

Is there a difference between open enrollment for new folks and just people deciding to change their coverage?

Wade Pfau 12:50

Yeah, yeah, your initial enrollment period is quite different from that I counted up at one point, like 11 different enrollment periods with Medicare. So it's really complicated. And we're not talking about 10 of those 11. Today, we're only talking about this annual open enrollment period. For individuals who are already enrolled in Medicare. We're not talking about the initial enrollment today.

Alex Murguia 13:15

And that makes sense. Because imagine if you're going to initially enrolled, know you need it January, you know, you're not going to wait. So there's many more, but this is specifically if you're in the open enrollment already, you're already enrolled in Medicare,

Wade Pfau 13:28

and you're going through that period using Medicare.

Alex Murguia 13:32

All right, and then you said there was a gap December 7, this stops, but you don't get that you don't if you change, make some changes, they go into effect.

Wade Pfau 13:39

Well, they'll go into effect January 1, you keep your existing coverage for the rest of the calendar.

Alex Murguia 13:44

Yeah. And there's a piece of this. And there's a caveat to one of these that we're going to hit up later. Well, in terms of just making sure that you have the appropriate cover. Yeah. Okay, I think that covers that one, right.

Wade Pfau 13:58

Yeah, yeah. And so as you start to head into this decision, in late September, early October, your existing Advantage Plan, or Part D plan, if you have either those should be sending you some documentation, the annual notice of change and the evidence of coverage, that talks about just the formulary of prescription drugs and how they're classified between different tiers and so forth, any sort of changes, any sort of changes in coverage of like, what kind of medical professionals or what geographic region and so forth. And so you can review that information. And then Medicare actually has a really good online tool. It's called the Plan Finder. And that's you can use that tool. It's at [medicare.gov/plan-compare](https://www.medicare.gov/plan-compare). And it gives you the opportunity to pretty effectively compare different Part D plans, different Medicare Advantage plans, with or without the prescription drug coverage. and also just the premiums on the supplements as well, although that's less relevant for the open enrollment period.

Alex Murguia 15:07

Okay, the way two questions here and one is a quick one, I'll just answer just in this is more the alphabet soup. So when folks refer to Medicare plan A and B, sometimes it's also called like the Original Medicare. It's kind of group like that when people say Original Medicare, they really mean plan A and B. But that that's, you know, part chatterbox on that one. Yeah, check the box on that one, what you said it's, people don't realize that they can change once they start. And I'd love to get your take on what are some reasons why, like, if you're listening to this, you're already enrolled in it. And they see Joe Namath and they just change the channel because you know, whatever, they want to just get something else. Why may they want to maybe pay a little bit more attention to it if they've already been enrolled? What are some like use cases, if you will?

Wade Pfau 15:57

Well, yeah, the big thing is going to be the prescription drug coverage. And it's helpful if you just keep a list of the prescriptions that you use. So that as best as you can you try to predict what prescriptions will you need in the following calendar year. And then with that, you can go in annually and this with a couple hours of effort, you may be able to save 1000s of dollars in the following year on the kind of out of pocket prescription costs that you'll face. By going to that plan compare tool with [medicare.gov](https://www.medicare.gov). Entering in the prescriptions you use. Entering in, you have the opportunity to select pharmacies in your zip code. Usually, they'll let you pick five at a time, it's a good idea to also pick the mail order option to make sure you're finding pharmacies that are going to be in network for the different Part D plans to get preferred pricing. And then to the extent that you can enter in your list of prescriptions, they'll show you the total annual cost and including premiums with deductibles factored in, and then the out of pocket

costs to pay for those prescriptions. Now the reality is you may not know exactly what prescriptions you'll need the following year. But if you could assume that you're predicting correctly, what prescriptions you'll need, it will rank the plans from the with total costs, you do want to choose the total costs option, not just looking at what has the lowest premium or not just looking at what has the lowest deductible, but which filter for the lowest costs. And you'll see the plans listed from cheapest to most expensive.

Alex Murguia 17:30

And I think that's important way, it's simply because in much the same way that that you did your like safe withdrawal calculation, which developed the universal kind of way to review that the best sustainable withdrawal rate, the plant finder, you know, kind of takes your use case by using the medications that you have to kind of find the best plans. And you don't need to know what's going to be the best plan five years from now, because it's a yearly kind of option that you're given. So, you know, as long as you think for the most part within the next year, your medications will, will remain steady. It's a good way of doing it. Wade,

Wade Pfau 18:05

yeah. And also because the coverage changes within a given plan. So maybe you did this the first year you enrolled in Medicare and pick the cheapest plan that here. And then with inertia, you keep sticking with the same plan, that might have been the best plan in year one, it could be the 15th most expensive or the least. I mean, it could be much more expensive, there could be a lot of plans that are less expensive in subsequent years. And that's where putting a couple of hours of effort into this can really change by 1000s of dollars, potentially how much you'll be paying for prescription drugs in the following year.

Alex Murguia 18:39

So to Wade, I just want to give a sense of things. How easy is this for the average person listening in to kind of get on there because sometimes it's not only inertia, it's sort of the that overwhelm, you know, folks have trouble enough selecting 401k options, right? So what may be second hand to you, oh, a few hours, you know, considering the implications and what's at hand, how what's, you know, how burdensome is this? Obviously, I'm not saying you shouldn't you should obviously do it because of the the impact. But, you know, if somebody is even overwhelmed with this, I think it's important to know that there's even specialists that kind of do this, this is not necessarily like calling your social security office and asking them about, you know, certain scenarios.

Wade Pfau 19:29

Yeah, there's independent brokers that from the perspective of the consumer, there's no cost because they'll receive a commission through the plan that you choose. So that's like, for example, what my mother does is she gives that list of prescriptions, she has to keep track of what prescriptions she would likely need to use in the following year. gives those to the person that she works with, and then she does that analysis with the plan compare tool.

Alex Murguia 19:56

Why don't you tell me your mom just doesn't hand you the licenses. I said, I've put in my time.

Wade Pfau 20:02

Now I tried it too, and was able to get the same answer as the broker. So I felt good about that. But it is confusing, though I kind of learned firsthand that it's not so much the list of prescriptions as it is knowing how to enter the amounts, and whether you enter, like if it's amounts, what do you mean by amounts? How many milligrams and dose? How many doses? And is it per month or per year or per day and knowing the right way to enter all that could lead to different cost estimates. And that's where I don't necessarily feel like I have any sort of expertise. And I don't know, I would help the brokers know that sort of thing better because of their experience. But I can't say for sure,

Alex Murguia 20:44

no, I'm looking even at McLean. We have financial advisors, they're all you know, credentialed. CFPs are ICPs. And even we use an outsource expert, when it comes to this simply because there's its own kind of level of expertise, if you will.

Wade Pfau 21:02

Yeah, yeah, I mean, with the retirement income Certified Professional designation that I direct when we teach financial advisors about Medicare, a big part of that is you should know the basics. But you might want to actually outsource the Medicare decisions to a professional that focuses on just that topic. So that's pretty standard within the financial advisory world of people who are helping clients with their retirements.

Alex Murguia 21:29

And what do you what you kind of see? Or what what does the data show actually with regards to you know, do most people do the Original Medicare do most people do the Medicare Advantage to most people do the Original Medicare with a good supplement?

Bob French 21:44

Let's take a moment to let the audience know that this show is sponsored by Retirement Researcher. You can learn more about Retirement Researcher at retirementresearcher.com And subscribe to our newsletter, where You'll receive weekly actionable information for your retirement planning benefit. Retirement Researcher is an online community devoted to helping you create the retirement income plan geared towards your goals.

Wade Pfau 22:11

At this point, it's really been changing some Medicare Advantage. If you even look back a couple of years, you'd probably say about a third of people choose Medicare Advantage. And this data comes from the Kaiser Family Foundation that in at this point, 48% was the most recent number. So basically, half of people are now choosing Medicare Advantage plans. And that's likely to continue to go up in the future. So that would really become the most popular at this point. And then I do think the second place would be Original Medicare plus a supplement. Then other options are Original Medicare, plus some form of outside retiree health insurance that plays the role of the supplement. And then some people just go on Original Medicare only, which can be risky, because the out of pocket costs are uncapped, with that just Original Medicare.

Alex Murguia 23:05

Okay, so, and then you're effectively underwriting everything yourself after, you know, after the initial cost. So just walk just trying to get a use case for folks that, you know, the year starts rolling around, they get something in the mail, they're gonna get documentation, which will, which will identify their coverage and any changes to the coverage. Does that work with?

Wade Pfau 23:29

Yeah, yeah, that should come in the mail. And if it didn't, you can follow up with the insurer. And so that we talked about the prescription drugs already that they have a formulary, which is the list of drugs covered by the prescription drug plan. But it's not just a list of drugs, it's also there's different tiers that will have different costs associated with them, that impact how much you'll be paying out of pocket. And then we'll talk about any kind of changes in in that sort of coverage with the drugs as well as their tiers. And then on the Medicare Advantage side, you need that information that you need is like what medical professionals will be covered, who's going to be in network, you may have a doctor that was in network this year, but with the same Medicare Advantage plan may be out of network in the following year. This geographic region covered by the plan could change other other factors or features could change. That mean, you may be best off switching to a different Medicare Advantage plan or you find that your the medical providers you'd like to use are no longer covered are no longer in network and that can raise the cost dramatically. Now when we talk about this idea of in network versus out of network. That's what people are familiar with that with their health insurance, generally pre Medicare. That's something you don't have to worry at all about Original Medicare. It's only an issue with the Medicare Advantage plans with Original Medicare like 98 to 99% of medical professionals in the US, except Original Medicare. The exceptions are sometimes there's these concierge doctors that don't accept any type of insurance. But aside from that, you don't have to worry much about Original Medicare. But with Medicare Advantage, you do have to have those same concerns that you have with traditional private health insurance, about whether or not the medical professionals you like to use are going to be covered by the plan. And that can change on a year by year basis. And so that's really one of the main things you're going to want to be checking as part of that annual review process.

Alex Murguia 25:37

And Wade, could you transfer from Original Medicare to Medicare Advantage back to original Medicare, back to Medicare Advantage?

Wade Pfau 25:46

Yeah, yeah. So I guess now's a good time to get into that supplement issue. And so the answer to your question is yes, you can go from Original Medicare to Medicare Advantage, you can go for Medicare Advantage back to Original Medicare. Now, the issue or the caveat with this is with Original Medicare, there's a series of CO payments and coinsurance is that are uncapped, and you can add a Medicare supplement or Medigap Plan that will help to cover those out of pocket costs. And Plan G is now the most comprehensive supplement available to new enrollees. It covers everything except the Part B deductible, that's only 200 and some dollars next year, everything else is you don't have any for any kind of covered care, there's not going to be any out of pocket costs, if you have that plan G supplement. Now, you can get that no problem during your initial enrollment period when you're

allowed to first enter into Medicare or during a special enrollment period. But if you're trying to get a supplement outside of like during annual during the annual open enrollment period, now there are some differences state by state. So there is no universal way to talk about this. But you do have to be concerned there could be an underwriting process. And you may not be able to get the supplement you want so that if you were in Medicare Advantage and want to switch to Original Medicare, you may not be able to get the supplement at your house. So

Alex Murguia 27:15

if you're in the Medicare Advantage, which is the Medicare that's like PPO, HMO, that kind of thing. And you want to because you have preferred doctors or whatever, and you want to switch back to like the the Original Medicare, you can have this issue, if you want to switch back to the original Medicare, but with some sort of Medigap coverage, or you know, it's a Plan G being the great one. Good one, you know, whatever you want to say, you're gonna have to be underwritten. And there could be an issue there,

Wade Pfau 27:47

right. So you can switch back to original Medicare, but you may not get the supplement that you want. And so that's like people may have this strategy. Well, when I'm younger and healthier, I'll use Medicare Advantage. And then as I get older and may face more health expenses, I'll switch to Original Medicare with a comprehensive supplement. And the reality is, it can be quite difficult to do that in practice. So it's, if you're thinking you want a comprehensive supplement, you probably in most cases should be using that from the very beginning. Not trying to change to that later on.

Alex Murguia 28:21

The reason you're saying that is because again, there's, you know, results vary, if you will. But effectively the Medicare Advantage is pretty comprehensive. But if you do the A and B with a good supplement, you get you have a little bit more coverage that you may not need when you're younger, but as you get older, you may need it. But the underwriting process may preclude you from doing it.

Wade Pfau 28:48

Yeah, if you have high health expenditures, kind of the if you have low health expenditures, Medicare Advantage could be the cheapest way to go. Then as your health expenditures increase, Original Medicare by itself could get quite expensive. Medicare Advantage could get expensive, but it does have out of pack out of pocket caps. And so at some point, you're going to be hitting those so there is a cap on your expenses. But as you get those higher health expenses, Original Medicare plus a comprehensive supplement could have a much lower total expenditure for you. So okay, if you have low health expenses, it'll cost more because you're paying more premiums. But as you have high health expenses, the ability to really eliminate those out of pocket costs, helps to ensure that Original Medicare plus a supplement will be less expensive than a Care Advantage for

Alex Murguia 29:45

Just to be clear, when you say more expenses. You're not necessarily talking about the monthly premiums you're talking about. All of the premium say exactly. It's a recurring theme. Yeah, that the out

of pocket costs. And largely that's because AMB They don't have caps. Hence the out of pocket costs over time could be significant.

Wade Pfau 30:07

Right, Original Medicare by itself has no out of pocket caps. Medicare Advantage does have an out of pocket cap. But it would be higher than what you would face with Original Medicare plus a comprehensive supplement, like Plan G.

Alex Murguia 30:22

Okay. And who offers Plan G is a private companies offer this kind of thing, right?

Wade Pfau 30:29

But now with the supplements, there's not so much to be concerned about, because it's very standardized at the state level, there's different letter options anywhere from Plan A to plan and some of the letters are skipped, because they're no longer available.

Alex Murguia 30:44

So the supplements do the whole alphabet again.

Wade Pfau 30:48

Yeah, that's why earlier you said, plan A and plan B, when you actually met Part A and Part B.

Alex Murguia 30:54

Yeah, you're right. So part A part. You're out? Yeah, you go. Even if it's Part A, Part B, Medicare, the when you start talking plan A, plan B, plan C, it's kind of a reference to the supplements. But those are standardized, is what you're saying?

Wade Pfau 31:09

Yeah, and I guess I may not have explicitly said this yet. But if you're on Medicare Advantage, you cannot use a supplement. I didn't I don't think I said that explicitly before, you can only use a supplement with Original Medicare.

Alex Murguia 31:24

Okay, and so the game that you're playing here, ultimately, is getting a true assessment of your healthcare costs, let's just say for the upcoming year, since you can kind of change it all the direction where you could have issues, and just seeing what you're all in costs would be, you know, in an apples comparison.

Wade Pfau 31:42

And well, it's would be hard to do that with medical visit doctor visits and things because that's really hard to predict

Alex Murguia 31:49

no talking like more like that. Yeah.

Wade Pfau 31:54

Yeah, prescription drugs. And then just to the extent that you can guess about your overall health expenditures, thinking about which approach might lower your overall costs. But again, with the caveat that if you're more risk averse, you're probably not want to kind of want to play the game of trying to use Medicare Advantage, and then later switching to Original Medicare, you probably just want to stick with Original Medicare plus the supplement from the very start.

Alex Murguia 32:23

Do you know of any numbers saying which direction you see most frequently? I would imagine based on what you said, you see it more. Not from the Medigap not not from the Medicare, the private version, back to Medicare Part A and B, you see it more the other way around.

Wade Pfau 32:41

Yeah, yeah. And so it's the Medicare Advantage or what all the commercials are about, and they promote some other aspects, which might sound great, but when you really dig in may not be as valuable as it seems. And that's things like what are some of those? Well, things like dental coverage or eye exams for like new glasses, that sort of thing is not covered with Original Medicare, and some Medicare Advantage plans will offer those additional benefits. Now, whether those are worth a whole lot really varies and may not always be may not be worth paying extra for like dental care, vision care, fitness plans, nutrition services, transportation, a doctor visits in home support, home modifications, those are all things that Medicare Advantage might cover that Original Medicare doesn't. And they're gonna see a little little bit of

Alex Murguia 33:35

a curveball Wait, what happens if you've like myself, and you're doing right now? If you started saving money in an HSA? Oh, yeah, you can use the HSA for that.

Wade Pfau 33:48

Oh, yeah, well, yeah, any eligible medical expense, you can then have a tax free distribution to pay for it from your HSA.

Alex Murguia 33:56

So just just, you can kind of start creating a buffer, if you will, to help make it

Wade Pfau 34:02

easier. The supplemental benefits may not be worth a whole lot, it may just be like a dental exam, which maybe you could pay out of pocket. I mean, I don't know like \$150 or something, which, of course, is not nothing. But it's, you're not necessarily going to want to make your overall health decision based on trying to save \$150 on a dental checkup.

Alex Murguia 34:24

When have you ever had an emergency root canal?

Wade Pfau 34:27

Well, that so that would, I don't want to get into the specifics on that. But at some point, you're moving away from what these supplemental dental care provisions might address and potentially what part A but I'm not sure if party would cover a root canal or not. I don't think Medicare Advantage would necessarily give me a patent

Alex Murguia 34:48

Yeah, just making a joke out of like a routine, you know, \$100 dental visit.

Wade Pfau 34:54

But the other thing to really note too about how these Medicare Advantage plans get marketed aside from the supplemental benefits is whether or not they have an additional premium. So if he has Medicare Advantage, you still have to pay your Part B premiums, you can't avoid that. And also, if you are hit by those surcharges, because your income is too high, you still have to pay those with Medicare Advantage. Now, at this point, the majority of Medicare Advantage plans, exactly speaking 69% do not charge any further premium. The other 31% do have an extra premium in for those 31% of plans that do have an extra premium. It's \$58 a month on average in 2022. But 69% of the plans don't have any extra premium. And then now with these commercials right now, some of them are talking about actually putting more money into your Social Security check, I believe is the way they frame it. And that's because they're rebating a portion of your Part B premiums that are deducted from Social Security checks.

Alex Murguia 36:03

But you get the sense, those are just like teasers.

Wade Pfau 36:05

Yeah, but that's the idea that it's it's a teaser, and it's not, it's talking about these small benefits, that could be more than offset by some of the like some of the things that are not so great. So with Medicare Advantage, we've talked about this, but to just emphasize it all in one place, you have to use in network doctors, you're most likely going to need to have a referral to meet any specialist where again, Original Medicare, this is not an issue. There is no concept of in network route network. You don't need referrals. If you don't spend much on health care, Medicare Advantage could be cheaper. But if as you start to have to spend more, that's where you may get into trouble. You can't use a Medicare Supplement. And just it's really at the end of the day, you might face greater out of pocket costs, depending on your circumstances and situation with Medicare Advantage. And that's what I think part of the most of the attention were posted, hey, these commercials are misleading. They're talking about these small benefits without necessarily talking about the potential costs that Medicare Advantage plans have relative to Original Medicare.

Alex Murguia 37:20

Well, what happens if you're retired and you're a snowbird and so you live? I don't know, Colorado in the summer and Florida in the in the winter?

Wade Pfau 37:31

Yeah, so any anyone who's a snowbird like that, that's going to generally be a strong reason to consider Original Medicare. With Medicare Advantage. There are exceptions, but generally, Medicare Advantage plans only cover a specific geographic region. So you might find a Medicare Advantage plan. That's great, where you live part of the year, but it's almost entirely useless where you live the other part of the year, and you just don't have that problem with Original Medicare. So snowbirds are generally going to be incentivized to really look at Original Medicare as an option.

Alex Murguia 38:05

international travelers, or let's say, you travel a lot internationally. And there's an emergency emergency visits.

Wade Pfau 38:13

So Medicare Advantage is not going to be helpful at all. And it's not the original Medicare plus a supplement would be great for international travel. But most of the supplements do offer a limited amount of emergency reimbursement for for emergency needs when traveling internationally. i That's a small, it's like just thinking benefit for Original Medicare with a supplement. But not it's another thing where you're probably not going to be making your decisions based just on that factor.

Alex Murguia 38:45

And how your premiums change. Do you get notified? How do you get notified?

Wade Pfau 38:50

Oh, that yeah, that would be another matter that's addressed in those the documentation you receive in late September early October. It's going to also say how the premiums with your existing plan would change in the following year.

Bob French 39:04

Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers eight tips to becoming a retirement income investor by heading over to retirementresearcher.com/eighttips again, get retirement researchers eight tips becoming a retirement income investor by going to retirementresearcher.com/eighttips. That's the number eight tips.

Alex Murguia 39:44

Okay. And so with regards to medical supplements, what would you say you know, the medical, the Medicare Supplements, what would you say are the the risk of waiting?

Wade Pfau 39:56

Well, it's that underwriting issue that if there's any and this does vary a bit by state. Yeah, that's primarily it. If you've signed up when you're first eligible, it's not there's no underwriting, you can get the supplement you want. If you wait, and you do have some sort of health issue at that time, you may not be able to get the supplement you want, depending on the state that you live in. And if you don't have any other special trigger, that creates a special enrollment period for you. But so you may not have

Alex Murguia 40:28

Yeah, no, we're traveling, we are living into two areas during the year, kind of seems the, the Part A and B with a supplement makes a lot of sense. When would the Medicare Advantage sort of seem to make sense? Or what are some benefits from it? I know we've met we've covered them throughout, but just to have them in one sort of statement?

Wade Pfau 40:48

Yeah, yeah. So like for people who might find medicare advantage to be more useful. If they do tend to spend less on health care services, the cost could be less than with Original Medicare plus a supplement. If they if all that medical professionals that they like to use are their preferred health care providers are all in network, then there's no real issue there, they can go ahead and consider their Medicare Advantage plan. If they do find that those additional services like dental and vision and hearing and so forth are useful, useful benefits, then that would be another reason to maybe lean towards Medicare Advantage. And also, there are some Medicare Advantage plans that are specifically designed for special needs. So for individuals who have certain chronic conditions, there may be a Medicare Advantage plan that's tailored particularly well to helping with that situation. And then the only other aspect of it is with Medicare Advantage, there's one card and you don't have to keep track of your Part A and Part B and Part D and supplements, you just have the one I've gotten a Medicare Advantage plan with prescription drug coverage, I'm good to go. Whereas you would have to keep track of more more aspects. A Part A and Part B go together, but then picking a Part D plan as well as a supplement.

Alex Murguia 42:09

And then would you say the difference between the Medicare Advantage? You know, within the Medicare Advantage, you effectively had a decision to choose an HMO kind of offering or a PPO offering. Are those differences the same that non Medicare folks would experience right now working with an HMO or PPO? Are there or is there a little sort of Kavya? Because it's a Medicare plan?

Wade Pfau 42:30

No, that's pretty similar. The Medicare Advantage plans are through private insurers instead of through the government. And so really, they are. So anyone who's using like an HMO or PPO plan now, they'll find it pretty familiar what's going on when they look at the Medicare Advantage plans.

Alex Murguia 42:49

Okay. So just thinking out loud here differences for Medicare Advantage. You see this need, though, you know, so in network doctors does that we're talking about the prescriptions changing? How often do you think the Medicare the doctors change that are in the plan or out of plan? from one year to the next? I would think that would be a concern, right?

Wade Pfau 43:15

It can Yeah, it can definitely happen. I don't know like the statistics on it. But it is definitely a consideration. And if you have a doctor that you're really like to use, maybe you can also ask for any intel on whether they're thinking they may leave a particular Medicare Advantage plan. But yeah, that's

something you'd certainly want to just monitor. And if you have the opportunity to switch plans to make sure you stay with the providers you prefer. And that's a great opportunity during the open enrollment period. So for people who might wait, we talked about why you might consider Medicare Advantage in terms of why you might consider Original Medicare? Well, if you are moving around the country quite a bit or have two different homes, again, that we've talked about, that's an advantage of Original Medicare, the concept of in network doesn't exist, they're all of any provider you want to use. You can also tend to see specialists and things without getting referrals, if you tend to use more health services generally. That's usually something that Original Medicare might be a better option for you. If you'd like to not be restricted within network or with a limited service area, if you do want to use a comprehensive supplement to really cap your out of pocket costs at a lower level. That's the advantage of Original Medicare and, and we mentioned also that international emergency care but that's a pretty minor detail that's available with the supplements for Original Medicare.

Alex Murguia 44:51

So so, Wade in terms of just this is a lot of information right. So in terms of trying to summarize some With this in a in a manner that, okay, I'm listening to the podcast. Obviously this isn't going to be the podcast where you're going to know what decision you need to make, but it's the one that can point you in two directions that you can look further, there's Part A and B, there's Part A and B with a supplement. There's the Medicare Advantage. If you're looking at those, it seems Part A and B is kind of a bare bones minimum, it may look cheaper, but because there are no caps, it may be an overall more expensive plan, there's Part A and B with a supplement. And keep in mind, I'm saying Part A and B, the supplements are usually plan a plan B plan, you know that kind of so the supplement, the Medicare Advantage would be well, sorry, there's Part A and B with a supplement. Those provide caps, and you know, more comprehensive coverage. And those would be more comparable to the Medicare Advantage plan. Medicare Advantage Plan is a self standing one and of itself. Then real quick, the supplements are private insurances, the Medicare Advantage is also private insurance. And those have caps as well. And you just kind of have to play the game where you're looking at what's the overall cost, not which one gives me the highest deductible or etc, etc. Because they're all in cost for that. Is that a is that a sensible kind of lineup?

Wade Pfau 46:21

Yeah, don't just compare plans based on premiums, or which has the lowest deductible. And trying to get a better sense of the total costs based on the amount of healthcare you use the it's just, if you tend to use less health care, Medicare Advantage could be cheaper, if you tend to use more health care, Original Medicare with a supplement could be cheaper overall, because it's going to have a higher premiums, but less out of pocket costs.

Alex Murguia 46:46

But if you potentially have a chronic illness, that could be some niche, Medicare Advantage plans that are almost tailor made for your situation. Right. Right. And that statement, okay. And then the other one is, if you're a snowbird, which happens a lot, if you're one that moves around, or you're going to visit the grandkids, three, four months out of the year, you know, 500 miles away, etc. You may consider then the eight Part A and B plan with a strong supplement. correct statement.

Wade Pfau 47:13

Yeah, and right. And I mean, just with the caveat that these days, there's more and more Medicare Advantage Plans entering the market. And so now there are some plans that have a more national scope of coverage. But certainly, a lot of plans are very limited in their geographic scope, and would not be useful to somebody who who isn't at Snowbird situation

Alex Murguia 47:32

and, and the and the sort of enrollment period, what you're, what you're probably looking at on a yearly basis, are the changes in formularies, the changes in drugs, the drug, the prescription drugs that are available, just to make sure that if your your prescriptions changes, you're still in the optimal plan. That's where inertia can take place. And you're, you're kind of out of it, you're probably not going to change supplemental plans all too often, because of no other underwriting involved and so forth. But it's really more you're looking at it from the prescription side of things on a yearly basis. Yeah, the 80/20 rule. Is that correct?

Wade Pfau 48:10

Yeah, if you're in Original Medicare with a supplement, you're probably not going to switch to advantage at that point, you just annually look at your Part D prescription drug coverage. If you're on Medicare Advantage, every year, you can kind of shop around to see if you want to switch to a different Medicare Advantage Plan, which would probably be the most likely scenario, you can also return to Original Medicare. But once you're in Medicare Advantage, it might just be more a matter of is there a different Medicare Advantage plan that would work better for me in the following year, either because it has that better prescription drug coverage, or because the medical professionals the list of who's in network is changing, and I want to find a new Medicare Advantage plan. And he's my preferred providers in network.

Alex Murguia 48:57

And you want to be careful with with the underwriting when you're making the switch back to the other.

Wade Pfau 49:03

If you were trying to switch a Medicare Advantage to Original Medicare, you would want to be careful with the underwriting and make sure you can get the supplement you're actually hoping to get Yeah, yeah, that's.

Alex Murguia 49:15

The clearer it is. So that's the best we can do in terms of chatting about this, but I think this gives that sort of level set that that frankly, I don't see it very often what I see very often is like Joe Nemeth selling, you know, selling the icing, if you will. What's What's up and coming in terms of changes?

Wade Pfau 49:41

Yeah, something just worth mentioning in this episode is with the inflation Reduction Act that passed this summer. There's some big changes coming down the pipeline for prescription drug coverage. For anyone who tends to be a high user of prescription drugs. You know that at some point you enter that catastrophic next phase of coverage, once you're spending 1000s of dollars on on prescriptions, that

catastrophic phase will be the threshold for the entering the catastrophic phase will be phased out in 2024. And then even bigger in 2025. According to the inflation Reduction Act, no Medicare enrollee will be required to pay more than \$2,000. And out of pocket costs for covered prescription drugs per calendar year. That's huge for anyone who does tend to use a lot of prescriptions. I don't know how that's gonna play out, because it's probably going to have to raise premiums and things for the Part D plans. But it's huge to have a \$2,000 cap on Out of pocket costs.

Alex Murguia 50:42

So that won't matter if you're in the Part A or B or the Medicare Advantage.

Wade Pfau 50:47

Yeah, that's, that's gonna apply for well, Part A and Part B plus A Part D plan, or Medicare Advantage plus a Part D plan or Medicare Advantage that simply includes effectively Part D within it. Yes.

Alex Murguia 51:04

Like I said, it's an alphabet soup. But if you did it, it's almost like you need swim lanes.

Wade Pfau 51:11

I explain things too complicated. But it's I'm not the one who makes all these Byzantine rules.

Alex Murguia 51:18

No, I mean, look, we're trying to like I said, all we could do all we can really achieve in this episode is really just laying it down in a manner that what we think is understandable. I think we accomplished that. At least I hope we did. And I think that's good. Wade, you got anything else for us?

Wade Pfau 51:37

No, no, that should do it for this wasn't the whole story arc on Medicare, because as we know that there's a lot that goes into making your initial decisions and so forth. But hopefully, this will just be a good refresher to get out there and take a look at your options if you're already enrolled in Medicare. And again, it's that plan, comparetool@medicare.gov That's a really valuable resource. And again, it can if you do tend to use prescription drugs and until this cap rolls in, in a couple of years, you could be saving 1000s of dollars on your cost next year by just spending some time making sure you have the most effective Part D plan or the most effective Medicare Advantage plan if you do go that direction as well.

Alex Murguia 52:20

Thank you with that with that, thank you Wade, and thank you everyone for your time. We really appreciate the the listenership and, and the support. Thank you. Wade?

Wade Pfau 52:30

Thanks, everyone. Have a great week and we'll see you again next week.

Bob French 52:34

Wade and Alex are both principals in McLean Asset Management and Retirement Researcher. Both are SEC registered investment advisors located in Tysons Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be appropriate for you, consult your financial advisor. All investing comes with risk including risk of loss. Past performance does not guarantee future results.