

Episode 219: Medicare Is Confusing: Here's How to Make Sense of It

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Medicare, retirement planning, Original Medicare, Medicare Advantage, Parts A, B, C, D, Medigap, supplements, prescription drug coverage, out-of-pocket costs, health insurance, financial personality, retirement income, Medicare enrollment.

SPEAKERS

Briana Corbin, Wade Pfau, Alex Murguia

Briana Corbin 00:00

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Briana Corbin 00:41

Medicare can get confusing fast, especially once the alphabet soup of parts and plans enters the chat in this episode, Wade and Alex simplify how Medicare works and what retirees should know before enrolling.

Alex Murguia 00:55

Hey, everyone, welcome to retire with style. I'm Alex, and I'm here with my good buddy, Wade Pfau who's a bit under the weather, which is, I don't know it's in the cards today, since we're covering, what are we covering today?

Wade Pfau 01:09

Wade, yeah, it's kind of ironic. We're talking about health care in retirement, particularly Medicare, which is going to become the primary payer for most Americans once they reach age 65 with with some exceptions that we can talk about.

Alex Murguia 01:22

And off the record, Wade is blaming me for his his recent cold. Wouldn't you say, Wait,

Wade Pfau 01:29

yeah, that's right, I came out to see you earlier this week, and when I hopped in your car, the first thing you said is, hey, I'm getting over a cold. I was like, Oh, here we go.

Alex Murguia 01:41

And of all things, many of you may not know this, but Wade's a bit of a germaphobe. He carries with him a bottle of Purell in his back pocket, so he proceeded to dispense the solution very quickly, please. You say,

Wade Pfau 01:59

yeah, that's something that's really been a post pandemic thing with my wife, but even she doesn't even trust Purell she she goes for the heavy duty stuff that also kills norovirus. So that's what I tend to carry around on business trips.

Alex Murguia 02:12

All right, there you go. I did get by customs any problems. She always had to. How do you get security?

Wade Pfau 02:20

Now it's in less than 100 milliliters. That's

Alex Murguia 02:23

all only three ounces. All right, okay, they put that right into your in an IV drip or something. All right, good idea. No, no, although we've been suggested things differently, but

Wade Pfau 02:40

medical advice along those lines.

Alex Murguia 02:43

Fair enough, fair enough. All right, real quick, not real quick, but Medicare. Before the podcast, Wade and I had a little level set just to get everything straight, because it could get confusing. We're thinking about the best ways to to present this. And so wait, I feel would be a great use before we go into the intricacies of it, if we level set by talking about the alphabet soup of the parts of Medicaid, but then how there's also plans which happen to have the same letters as the parts, and with regards to the plans, how the plans are also referred to as plans, supplements and Medigap, all right? So effectively, what are the parts and then, what are the underlying plans? Right?

Wade Pfau 03:31

Right? And this, so it's worth really emphasizing this has been a source of confusion. There are two four letter words that begin with p, but part and plan are two very distinct words that have very distinct meanings in the Medicare world. So don't when we're talking about parts and plans, make sure you you don't think, Oh, those are just two ways of saying the same thing. They're they're different. And we're talking about chapter seven in our series going through the third edition of the retirement planning guidebook and what you need to know to to be ready for your retirement. And so most Americans, with some exceptions, become eligible for Medicare at age 65 reaching age 65 and the first choice they have to make is, on the part side, they can go with Original Medicare, which is part A for hospital insurance, Part B for medical insurance. And then, if they don't have any retiree health insurance or anything, they'll also want to choose Part D for prescription drug coverage. Alternatively, they can go their route of Medicare Advantage, which is Part C. Part C is has become more popular. It's now actually, in just a short period of time, over 50% of new enrollees are now choosing Part C, just slightly over four 50%

Alex Murguia 04:47

now wait real quick when you sell alternative that means, instead of part A, B and D, if they choose to go D, they can just do part C,

Wade Pfau 04:57

Part C and then most Part C plans. Or at least you can pick a Part C plan that includes prescription drug coverage, so you have it all in one package. And if you've seen commercials for Medicare on television, which are quite common, especially around the open enrollment season in October, all those commercials are for Medicare Advantage Part C plans run by private insurers.

Alex Murguia 05:19

And if you pick a Part C plan that does not have prescription coverage. Could you then tag on Part D?

Wade Pfau 05:26

I think so. But I think it's usually just more straightforward to pick a Medicare Advantage plan with the prescription drug coverage. There might be some issues, and it might also depend state by state, but generally just you would choose a Medicare Advantage plan with prescription drug coverage. Perfect.

Alex Murguia 05:44

I'm just trying to think of every iteration that our listener may be hearing and thinking, okay, and so now we got the parts down. What about the plans? Right? The plans

Wade Pfau 05:57

are the Medicare Supplements, also known as Medigap, and those are only available with Original Medicare. So original being part A and B and B, yeah, if you choose Medicare Advantage, you're not able to have a supplement. But the supplements there, they range plans, A through N. This is now using the word plan instead of part with different levels of coverage. If you became eligible for Medicare after January 1 2020. Plan G is the most comprehensive supplement available, which covers all the co pays, deductibles, coinsurance in Original Medicare Parts A and B, except for the deductible for Part Part B, which this year is \$283 so you'd still have to pay the Part B deductible, but otherwise you have no more out of pocket costs related to anything covered by Part A and B if you have the Plan G supplement. Now the the

Alex Murguia 06:59

trick is, this is, I would imagine, when you see the most comprehensive, it's probably the most expensive as well.

Wade Pfau 07:06

You should shop around. In theory, it should be the most expensive. That's not always the case, or just maybe different competition in your local market. So don't, yeah, don't be scared away from Plan G because you're worried it's more expensive. It may not be. And you can use the Medicare Plan Finder tool@medicare.gov to look through your options

Alex Murguia 07:25

and in your book, do you go down now that you have all of these? I mean, it's very easy for the listener to think, well, this is overwhelming. Thank you for this information. Now, what? How do you make? How do you make sense of this alphabet soup in your book?

Wade Pfau 07:40

Uh huh. So well, we could go through and outlining this in the book, a list of like characteristics that might make Original Medicare the Part A and B, D and supplement more attractive, and then some characteristics where Medicare Advantage might be more attractive. So maybe it's worth going through those lists. And if you got a copy of the third edition at home. I'm actually looking at page 165 so with Original Medicare, reasons, you might consider Original Medicare this first one's important. So if you're a snowbird, or if you're someone who's traveling quite a bit in retirement, you're not really limited to one area, Original Medicare is going to work a lot better for you, because most Medicare Advantage plans, they work either like HMOs or PPOs, and they're more limited. The in network coverage for Medicare Advantage is usually in one geographic area, so if you spend part of the year somewhere else, there may be no in network providers available to you that makes Original Medicare is accepted. Anyone who accepts Medicare, which is estimated to be about 98 to 99% of medical providers in the United States, you'll be covered with Original Medicare. You can go visit those you don't need any referrals. You can make those appointments. Medicare Advantage is a lot harder to use in that respect, and so anyone moving around quite a bit Medicare, Original Medicare is quite attractive. Then also, even if you are just staying in one general area, if you have preferred health care providers, but you can't find them in network for any of the Medicare Advantage plans available, that would be a reason to choose Original Medicare if you're someone who does tend to use more health care services or see more specialists. It can be a lot easier to navigate all that because you don't have to worry about this whole in network and getting referrals with Original Medicare. So if you just generally value having the options not to face those kinds of in network restrictions, or just having a limited service area. If you want to have a comprehensive supplement to cover all those out of pocket costs, Original Medicare would be the way to go. And then also, if you're traveling internationally, Medicare is not really meant to provide health care coverage outside the US, but some of the supplements do have limited emergency. Be coverage overseas as well. So that might be helpful. Now, Medicare Advantage, generally, Medicare Advantage, your premiums will be less especially if you're someone who's choosing a relatively comprehensive supplement. So if you're really focused on having the lowest possible premiums, Medicare Advantage might provide that to you now, with Medicare Advantage,

Alex Murguia 10:25

I'm sorry, Medicare Advantage, but then you get a supplement as well. No, you can't, you can't get, yeah, so you

Wade Pfau 10:31

just Medicare Advantage. There's out of pocket limits for Medicare Advantage, but they tend to be higher than if you had Original Medicare plus a comprehensive supplement, your overall premiums would be higher, but your out of pocket costs would be less. Medicare Advantage you may be looking at lower premiums, but if you use a lot of health care, you'll spend more overall until you hit those out of pocket caps.

Alex Murguia 10:54

Now, what's the what would you say is the level of coverage across all the Medicare Advantage plans? Does it range from HMO type to PPO type?

Wade Pfau 11:03

Yeah, there's a number of different options, but the two most common are HMO designs and PPO designs. Okay, just and because they're through private insurers, they work in the same manner people are used to with their pre Medicare health insurance. Okay?

Alex Murguia 11:21

Then a follow up. Let's say you do this and you realize

Wade Pfau 11:24

again, the list of why you might choose Medicare Advantage. Say it again, there's more go on. I'm sorry, yeah, yeah. So Well, if your preferred health care providers are in network with a Medicare Advantage plan you're looking at that can lean you in that direction. If you do tend to use less health care services, so you don't have a lot of like out of pocket spending with the lower premiums to Medicare Advantage, you might be spending less overall. There's a risk element to that, but if you tend to just be, you know, you don't use a lot of Health Care Services anyway, that can make Medicare Advantage more attractive. Medicare Advantage can also have some supplemental benefits not available through Original Medicare. And a lot of the marketing for Medicare Advantage focuses on, there may be dental coverage, vision coverage, hearing aids, things that aren't really covered through Original Medicare. You really have to assess the value of those additional benefits, but that's certainly part of the marketing angle is you can get some additional benefit, and that's how they did. The commercial will say you're missing out on benefits that you could be getting through Medicare, with our with our Medicare Advantage plan, your dental, vision and hearing is covered. So that's an element to consider

Briana Corbin 12:35

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Alex Murguia 13:00

But a comment here you what are the on orders of magnitude? What would be the price differences that you've seen, talking like a couple \$1,000 a year or a couple \$100

Wade Pfau 13:12

a year? So if you choose Medicare Advantage, you still pay your Part B premium, and then many Medicare advantages don't have any additional premium, there's now some options that will even refund you part of the Part B premium, or they might have an additional cost. So it works out like around across all the Medicare Advantage plans, including those with no additional premium, the average monthly cost tends to be around \$20 and then if you only look at plans with premiums. It's around \$60 per month extra, but then you don't have the supplement that way, so you are then going to face more out of pocket expenses for coinsurance, co payments and deductibles

Alex Murguia 13:55

and so I mean, could the commercials that you're hearing about Medicare Advantage saying you're missing out on premiums, you're missing out on services. Could you get those services if you just added like the Medigap, one of the one of the meta gaps?

Wade Pfau 14:09

Well, Medigap is only covering things with Original Medicare, so they you cannot get, although some of our retirement Research Academy members said there's a few plans out there that are changing this. But the general answer is Medicare Supplements won't cover the dental, vision or hearing.

Alex Murguia 14:27

So no, that's not a way to get those additional benefits. So if you're on a B and then a plan, you know, one of the Medigap plans, how would you get dental

Wade Pfau 14:38

Well, you could buy separate dental insurance if you want, or you could. Sometimes dentists will have you, like, join their dentist for an annual fee. You get the two cleanings. And the point

Alex Murguia 14:50

being that there's no there's no I'm just trying to bring home that. There's no plan for it within this universe. It had to be some sort of out of pocket thing. Yeah.

Wade Pfau 15:00

Right, right? It may be worth also, well, just a couple of their points Medicare Advantage if you have certain chronic conditions, there can be Medicare Advantage Plans tailored to really help out with those situations. And then also, there's that appreciating just having one, one Medicare card rather than with Medicare Advantage you got your card instead of having an A, B, D and supplement to be thinking about now, but then we get into So, what does Medicare not cover in terms of, what are the coinsurance, co payments and the like. So if you have a comprehensive supplement, like with hospital stays, if you just are going with Original Medicare and you don't have the supplement, there's a \$434 copay for days 61 through 90, and then you have to pay the full costs beyond 90 days for a hospital stay. So a supplement can take care of that for you. With any kind of Part B medical expense. There's a 20% coinsurance that the supplement will cover, that you get three pints of blood for free, which maybe is not that huge a benefit. Throw in the

Alex Murguia 16:13

doormats for free. Yeah, I've got a table or AV, which one do you get for free?

Wade Pfau 16:19

I've got a table where I show the monetary value of the supplement benefits, but I never could find any. What these three pints of blood are worth?

Alex Murguia 16:29

How much is your worth? In Transylvania,

Wade Pfau 16:32

you do have the part a hospice coinsurance and CO payments covered. There's an issue so well you don't get long term care through Medicare. That's a whole separate conversation. But under limited circumstances, after a hospital stay of at least three nights, you can get skilled nursing care for up to 100 days. The first 20 days are covered fully, but there's a \$217 copay for days 21 through 100 you can get a supplement that would cover that for you for Part A every time you have a benefit period, which is not the same as a year, it's you can have multiple benefit periods per year. If you're in the hospital and then out for 90 days and then go back in again. Each benefit period, there's a \$1,736 deductible. So that's a good benefit from the supplement

Alex Murguia 17:21

for for the listeners, the definition of benefit period means, well,

Wade Pfau 17:26

it's a benefit period begins when you enter the hospital and then ends once you've been out of the hospital for at least 90 days, okay? And then that resets all the days, one through 60 of a hospital stay, versus 61 through 90 and so forth. But you're facing that, that deductible each time there's a part b deductible of \$283 that if you became eligible for Medicare after January 1, 2020, by law supplements can't cover that for you, but there's some older supplements, Plan F in particular, that might cover it well, that do cover that. It's just that's not really an option anymore. The supplements can cover excess charges for Medicare, which is where, if a Medicare provider does not accept assignment from Medicare, they can charge up to 15% extra than the Medicare rates for health services, and you'd have to pay that out of pocket, unless you have a supplement that covers this part b excess charge and then the foreign travel emergencies. That's the potential benefit of a supplement. So with a comprehensive supplement other than that part b deductible, again, you don't have any out of pocket expenses anymore related to things that are covered by Parts A and Part B. Now, not everything may be covered, but for anything that is covered, you're no longer facing out of pocket expenses.

Alex Murguia 18:52

Is it fair to say for the most bulletproof plan, it would be like, get Part A, B, get the, you know, the supplement that kind of matches yourself. And on the side, do something for vision and dental in part d2 for prescriptions. But yeah, oh yeah, yeah, that would be, like, bulletproof,

Wade Pfau 19:13

the risk averse version, the highest premiums, but for the least out of pocket

Alex Murguia 19:17

costs, yeah. And then the on the flip side, it would be get a Medicare Advantage Plan and the most cost effective PPO, if you think your body's like Superman, yeah.

Wade Pfau 19:32

And some people might be thinking, well, I'll get a Medicare Advantage early on when I'm healthier, and then switch to a supplement later. But that may not work out for you, because initially you can get any supplement when you're first eligible for Medicare, but once you're out of any initial enrollment period or a special enrollment period that lets you sign up later, those policies can be underwritten, and you may not qualify, so you can't wait until you're unhealthy to switch over to a comprehensive supplement. So what

Alex Murguia 20:00

you mean is you can get a B and, you know, say you're on an advantage plan, you could later on, say, All right, now I have my bones are getting creaky. You know what? I'm gonna do, a B, get the prescription on D, and then select any Medigap plan that you want, but you're saying A B and the prescription D, but you're not gonna be able to select any sort of supplement that you want, because you may not be able to be underwritten for it is that kind

Wade Pfau 20:26

of what you're saying? Yes, yeah. Every year during open enrollment, you can switch back and forth from Original Medicare to Medicare Advantage, Medicare Advantage to Original Medicare or switching Medicare Advantage providers. It's just if you're trying to switch back over to Original Medicare later, you may not pass the underwriting for the supplement that you want. Okay?

Alex Murguia 20:48

And that's a real risk that would be someone with a chronic illness or something along those lines. Yes, you'd be tricky. Yeah, yeah.

Wade Pfau 20:59

So well that, I guess there's the whole issue of, when do you need to sign up for Medicare and all that sort of thing,

Alex Murguia 21:07

yeah, and, and is one expected to do this all by themselves? Because this seems you're talking the two things are health and wealth, right? And it affects both of those. What have you seen? What's your suggestion, and how they could use your book to maybe help guide them directionally. And once they have that guidance, directionally, how do they really, really drill down in it like, to what extent can your book take them to? And then at a certain point there's some sort of handoff?

Wade Pfau 21:37

Yeah, yeah. So this medic area is something you can do do it yourself. You don't necessarily need a professional to help you, and you just use the Plan Finder tool at Medicare to find your options and choose one sign up. That being said, though, there are many independent brokers out there who you don't you don't pay the they're reimbursed. They receive a commission from the plan that they put you in, but you're paying the same premiums. Either way, it's not more expensive for you to go through a broker than it would be to sign up directly. So in many cases, people do like to simplify this aspect of their life by working with a independent Medicare broker. Okay?

Alex Murguia 22:20

And wait in terms of since we've talked about the health side of it now and the wealth side, what? What is a reasonable budget for health care expenses in retirement in light of all of this?

Wade Pfau 22:32

Well, you want to think about with your choices, what are your premiums, deductibles, and that sort of thing going to look like? And so that would vary, your budget will be less. What will your

premiums will be higher, but your concerns about out of pocket spending would be less with Original Medicare and a comprehensive supplement. And then you're just beyond the premiums that you're paying. You're looking trying to assess what your out of pocket costs might look like. You can estimate those based somewhat on your your past spending for health related things. It may not be exact. Whenever you switch health insurance, many insurers have negotiated rates for different services. So it's not as simple as just looking at your previous health spending and adjusting that for Medicare, but getting a sense of what you might be paying out of pocket in addition to premiums and coinsurance and deductibles.

Alex Murguia 23:24

Okay, Wade, I think this was an episode that had a lot of things for folks to digest, and doing more may be overwhelming. I think this is a good stopping point for this episode, because it's one that I would hear it again, because I can't stress enough the confusion that we have with folks with regards to the part Medicare, part A, B, C, D, but then medic Medicare plans, plans, also known as supplements, also referred to as Medigap, A through N, and sometimes Y. I had to get the y in there. But right, wait, I think it's a good stopping point. Folks can listen to it again, just to again level set what the what the terms are, and what the basics Pro, what the basic pros and cons are of of

Wade Pfau 24:15

that, yeah, fair enough, because, yeah, there's other topics that are pretty complicated too, about when you may not have to sign up for Medicare, but Right? We can save that for a different episode, since it's a whole different set of issues that you need to digest to fully understand your status with Medicare.

Alex Murguia 24:34

All right, everyone, well, then catch you next week on retire with style. This is Alex signing off with my good buddy, Wade, take care. Everyone. Take care.

Briana Corbin 24:44

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