

**THE COMPLETE CARDINAL GUIDE
TO PLANNING FOR AND LIVING IN RETIREMENT
WORKBOOK**

NAVIGATING SOCIAL SECURITY,
MEDICARE AND SUPPLEMENTAL INSURANCE,
LONG-TERM CARE, IRA, LIFE INSURANCE,
POST-RETIREMENT INVESTMENT AND INCOME TAXES

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The Complete Cardinal Guide to Planning for and Living in Retirement Workbook

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KEY QUESTIONS

- What is Medicare? What are its Parts?
- When do most people become eligible for Medicare?
- What options are available for going on Medicare?
- How does Medicare cover prescriptions?
- What are Medicare Supplement Policies?
- Why would I change my Medicare Supplement policy?
- What is “LIS,” or Extra Help?
- What is an Income-Related Monthly Adjustment Amount (IRMAA)?
- How does Medicare pay for Long-Term Care?

Corresponds to Chapter 3, “Medicare: Excellent Health Insurance, But It’s Not Long-Term Care,” in The Complete Cardinal Guide.

2.1 What is Medicare?

Medicare is the federal health insurance program for people who are 65 or older, people with disabilities, and people with end-stage renal disease. It is broken down into four Parts: A, B, C, and D.

When Lyndon B. Johnson became president after the death of John F. Kennedy, he was determined to address many serious domestic problems. One of the most important was an increasing number of elderly Americans dealing with very limited health-care coverage or none at all. In addition, at that time older people had little to no protection

against the rising costs of health care. A year and a half into his presidency, Johnson worked with Congress to enact Medicare in 1965.

Prior to the creation of Medicare, only half of Americans over the age of 65 had any kind of hospital insurance. Very few had group insurance covering the cost of physicians or surgery. People with pre-existing conditions would be classified as high risk, and many of these disabled and elderly individuals were having their policies terminated by private insurance companies. Furthermore, they could be excluded from purchasing coverage in the future, or forced to buy in to high-risk insurance policies with high premiums.

There were government programs that provided financial aid for health care before Medicare, but they were very limited and difficult to access. These programs had very strict eligibility requirements and narrow coverage. Today, more than 55 million elderly or disabled Americans are covered under Medicare.

In 2003, President George W. Bush signed into law the Medicare Prescription Drug, Improvement, and Modernization Act. This law, also called the Medicare Modernization Act, completely overhauled Medicare for the first time in its 38-year history. It created the Part D Prescription Drug Insurance Program, bringing together funds from the consumer, the insurance companies, and the government to help cover the increasing cost of prescription medications. The law also created the Medicare Advantage program, called Part C.

2.2 Medicare Eligibility and Enrollment Periods

Most people become eligible for Medicare the first day of the month of their 65th birthday. If you have retired and earned Medicare eligibility through your own work history or your spouse's, you should enroll in Medicare. Part A covers hospitalization and outpatient medical services like chemotherapy, and has no ongoing premium. Part B, which pays for services provided by doctors and for routine procedures or operations, is important to have, especially if you do not have creditable coverage from another insurance provider. Together Parts A and B make up Original Medicare.

For most people, Part B has a monthly premium near the national average of \$134. Higher-income Medicare beneficiaries will pay a surcharge on Parts B and D (see below). These surcharges, called Income-Related Monthly Adjustment Amounts (IRMAAs), are applied to individuals and couples with above-average incomes.

If you're already receiving Social Security benefits or Railroad Retirement Board benefits, you will automatically be enrolled into Parts A and B unless you opt out. People under 65 and disabled will become eligible for Parts A and B after they receive disability benefits from Social Security or certain disability benefits from the Railroad

Retirement Board for 24 months. Those with more extreme medical conditions like Amyotrophic Lateral Sclerosis (ALS), also known as Lou Gehrig's disease, will become eligible for Parts A and B as soon as their disability benefits begin. If you are eligible but not receiving these benefits, you will need to enroll by contacting the Social Security Administration. Many people apply for Social Security and Medicare benefits at the same time, but that is not required. If you do, your Medicare Part B premium will be deducted from your Social Security check. If you delay Social Security benefits but elect Medicare, you will have to pay for your Part B premium via a bank draft or a quarterly check.

Initial Enrollment Period

You can sign up for Part A and/or Part B during a seven-month period beginning three months before you turn 65. This is called the **Initial Enrollment Period**. If you turn 65 on the first of the month, your Medicare benefits start the first day of the prior month. If you enroll in Part A and/or Part B during the month you turn 65 or during the last three months of your Initial Enrollment Period, your Medicare coverage will be delayed and you may be without coverage. If you are still working at 65 and are covered by group insurance (which can provide creditable insurance coverage), delaying Part B can save you money and preserve your **Open Enrollment** rights for Medicare Supplemental coverage (see below).

If you wait to enroll outside of your Initial Enrollment Period you can be penalized and your coverage can be delayed for months. In addition to paying higher premiums for a lifetime, you risk being without coverage for months. The **General Enrollment Period** for Medicare runs from January 1 to March 31; coverage starts in July. There are also some exceptions, known as **Special Enrollment Periods**. If you miss your chance to sign up in the initial enrollment period, this is when you can sign up.

Special Enrollment Period

If you or your spouse is still working, you will have a chance to sign up for Medicare outside of your Initial Enrollment Period by qualifying for a Special Enrollment Period. If you or your spouse didn't sign up for Medicare when you were first eligible because you both were covered under a group health plan based on current employment, you could enroll into Medicare under a Special Enrollment Period. It is important to act quickly once you decide to retire or otherwise lose coverage from a current employer. Special Enrollment Periods are one way to avoid late enrollment penalties or gaps in coverage.

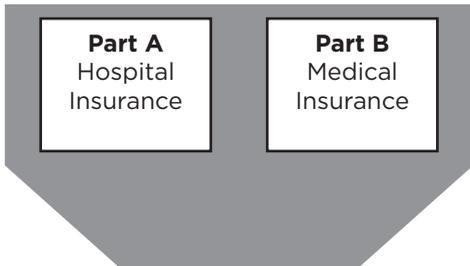
Fig. 2.1

START

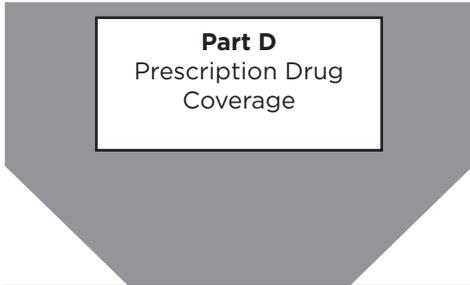
Step 1: Decide how you want to get your coverage

ORIGINAL MEDICARE or MEDICARE ADVANTAGE PLAN

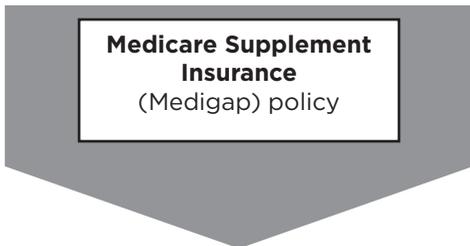
Part C (like an HMO or PPO)



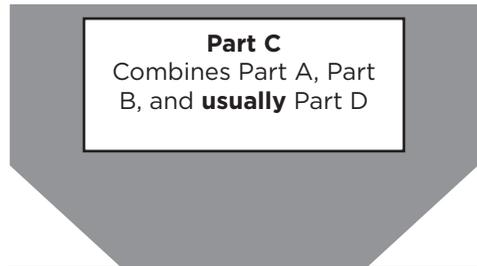
Step 2: Decide if you need to add drug coverage



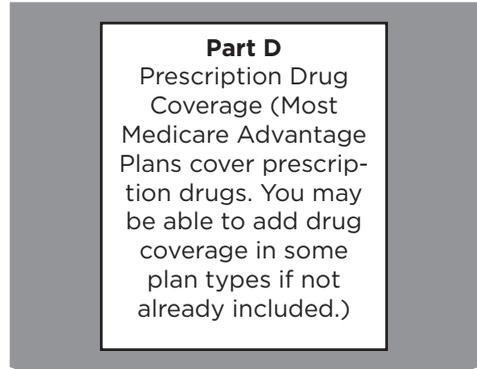
Step 3 : Decide if you need to add supplemental coverage



END



Step 2: Decide if you need to add drug coverage



END

If you join a Medicare Advantage Plan, you can't use and can't be sold a Medigap policy.

2.3 Original Medicare versus Medicare Advantage

Once you are eligible for Medicare you will need to decide how you receive your benefits. Most people choose **Original Medicare** with Parts A and B. Another option is to choose Part C, which provides an alternative to Original Medicare called **Medicare Advantage** (see chart on facing page). Medicare Advantage plans have low premiums and various out-of-pocket co-payments and co-insurance costs. These plans are similar to an HMO plan that requires the use of a particular network of doctors. Part D prescription drug coverage can be bought separately if you use Original Medicare (and some Medicare Advantage plans), or these benefits may be included in a Medicare Advantage plan.

Under Original Medicare your benefits and network are provided and administered by the Centers for Medicare and Medicaid Services (CMS). An Advantage plan provides similar Part A and Part B benefits but is administered by a private insurance company. Medicare Advantage plans often operate very differently from Original Medicare. Their main advantage is they cost less than Medicare Supplement insurance.

As with Medicare Parts A and B, delaying enrollment into Part D can create a lifetime penalty. Part D also has an Initial Enrollment Period and an Annual Enrollment Period (from October 15 to December 7) each year. Medicare Advantage and Part D prescription drug plans are offered and administered by many different insurance companies and can be changed annually by the insurance carrier. The prices of certain procedures or medications can change from year to year inside the same plan. Therefore, it is important to annually review your Medicare Advantage (Part C) and Part D plans with a qualified insurance agent or your senior citizens' health insurance society in your state.

Reading Check

Charles has been talking to his 69-year-old friend Paul about his upcoming 65th birthday, which is two months away. Charles asked Paul when he should start looking at signing up for Medicare. What should Paul tell Charles? What would be different if Charles is still working and has group insurance?

Charles wants to know if there are options outside of Original Medicare. What should Paul tell Charles?



After your monthly book club meeting, your friend Georgetta confides in you that she is confused about how Medicare works and all of the different Parts. How are the Parts different from each other?

2.4 How to Choose a Medicare Supplement Plan (Medigap)

In November 1990, President George H. W. Bush and Congress took action to standardize Medicare supplement policies. Most states have accepted this modernization.

If you decide you want to participate in Original Medicare instead of Medicare Advantage, you have several important decisions to make. One of the most important is whether or not you need a “Medigap” policy. Formally known as a **Medicare Supplement plan, a Medigap policy functions as secondary insurance to pay health-care costs that Medicare Parts A and B approve but don’t cover.** One of the first pieces of information you will receive regarding Medicare Supplement policies is a government guidebook, *Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare*. This booklet is published annually by the Centers for Medicare and Medicaid Services (CMS). It is jointly developed by CMS and the National Association of Insurance Commissioners.

One of the most important sections in *Choosing a Medigap Policy* compares the 10 Medicare Supplement/Medigap policies that are available in 47 states. (Minnesota, Wisconsin, and Massachusetts have not accepted the standardized set of Medicare Supplement policies.) These 10 different policies are lettered Plan A through Plan N. **Since these plans have been standardized by the federal government, each lettered policy is the same from company to company.** The only difference between them is the cost of the plan.

Medicare beneficiaries who apply for Medigap during their Initial Enrollment Period are eligible for an **Open Enrollment**, which allows them to apply for *any* Medigap plan offered by any insurance carrier, without having to answer any health underwriting questions. Pre-existing conditions cannot preclude you from receiving benefits or qualifying for coverage. This Open Enrollment period is similar to guaranteed-issue rights. If you delayed your Part B benefits due to having creditable coverage from an employer, your Open Enrollment period is also delayed until you begin Part B. It is very important to use your Open Enrollment right correctly.

Sixty percent of Americans who own a Medicare Supplement policy have Plan F, the most complete Medigap plan. Plan F provides coverage for each “gap” in Medicare coverage (the Part A and B deductibles, co-payments, co-insurance, and even certain excess charges). Plan G offers the next-best coverage and provides the best value for most people. Plan G does not include the Part B deductible.

Fig 2.2

Medicare Supplement Insurance (Medigap) Plans										
Benefits	A	B	C	D	F	G	K	L	M	N
Medicare Part A and hospital costs (up to an additional 365 days after Medicare benefits are used)	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Medicare Part B coinsurance or copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Blood (first 3 pints)	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Part A hospice care coinsurance or copayment	100%	100%	100%	100%	100%	100%	50%	75%	100%	100%
Skilled nursing facility care coinsurance			100%	100%	100%	100%	50%	75%	100%	100%
Part A deductible		100%	100%	100%	100%	100%	50%	75%	50%	100%
Part B deductible			100%		100%					
Part B excess charges					100%	100%				
Foreign travel emergency (up to plan limits)			80%	80%	80%	80%			80%	80%

In the following example, Ruth is a single 70-year-old woman who doesn't smoke. Ruth learned from a Medicare Supplement Premium Comparison Report that other insurance carriers were offering her same plan for a lower price. It's easy to compare premiums with very little personal information: age, zip code, tobacco use, and gender are all that's required.

Ruth's report included prices for Plans F and G. Plan G is considerably less expensive, mainly because it lacks coverage for the annual Part B deductible. Still, even if Ruth paid the deductible her total cost would be less than for Plan F.

Fig. 2.3

Plan F Rates for Ruth*

Company	Monthly Rate	Company	Monthly Rate
Old Surety	\$119.79	Thrivent Financial	\$173.25
American National Life	\$126.17	American Republic	\$175.15
CSI Life	\$127.75	Senitnel Security	\$175.59
Greek Catholic Union of the USA	\$131.63	UnitedHealthcare	\$177.77
Companion Life	\$133.21	American Republic Corp	\$178.94
Medico Corp Life	\$136.63	Gerber Life	\$179.09
Aetna	\$136.95	Globe Life and Accident	\$189.00
Combined	\$139.40	Reserve National	\$203.05
New Era	\$140.62	Equitable Life & Casualty	\$205.09
Americo Financial Life & Annuity	\$141.92	Bankers Fidelity	\$207.74
IAC	\$142.31	Americian Republic Corp	\$210.52
American National Life	\$143.37	BCBS of North Carolina	\$215.50
HumanaDental	\$143.48	Gerber Life	215.77
Manhattan Life	\$144.00	Humana	\$216.94
GPM Life	\$144.51	United Healthcare	\$223.67
Central States Indemnity	\$144.58	Humana	\$226.02
Loyal Christian Benefit Association	\$145.11	Reserve National	\$233.50
Sentinel Security	\$147.86	Colonial Penn	\$233.64
USAA	\$148.41	Standard Life and Accident	\$238.28
UnitedHealthcare	\$148.45	United American	\$242.00
American Retirement	\$148.88	Bankers Fidelity	\$251.24
Equitable Life & Casualty	\$154.00	United Commercial Travelers	\$256.13
American Retirement	\$154.08	American Retirement	\$258.59
Mutual of Omaha	\$159.99	Colonial Penn	\$259.49
Americo Financial Life and Annuity	\$163.21	Physicians Mutual	\$265.12
Oxford	\$163.85	UnitedHealthcare	\$267.66
State Farm	\$168.64	Colonial Penn	\$288.22

*For zipcode 25711, accessed April 1, 2017

Provided by CSG Actuarial, csgactuarial.com

Fig. 2.4

Plan G Rates for Ruth*

Company	Monthly Rate	Company	Monthly Rate
CSI Life	\$98.33	American Retirement	\$130.21
American National	\$99.79	Americo Financial	\$136.76
Loyal Christian Benefit Association	\$101.56	Bankers Fidelity	\$138.30
IAC	\$106.48	Equitable Life & Casualty	\$150.25
Greek Catholic Union	\$108.52	Gerber Life	\$150.98
Aetna	\$109.21	Reserve National	\$151.95
Sentinel Security	\$109.86	Thrivent Financial	\$152.46
Central States Indemnity	\$110.25	Colonial Penn	\$171.26
Medico Corp	\$110.54	Reserve National	\$174.75
GPM Life	\$111.92	Standard Life & Accident	\$175.93
Mutual of Omaha	\$112.71	Gerber Life	\$181.92
Equitable Life & Casualty	\$112.75	Colonial Penn	\$190.18
American National	\$113.40	United Commercial Travelers	\$192.25
New Era	\$114.80	BCBS of North Carolina	\$205.25
Bankers Fidelity	\$115.25	Colonial Penn	\$211.20
Manhattan Life	\$116.25	Physicians Mutual	\$214.38
Americo Financial	\$118.92	United American	\$231.00
HumanaDental	\$120.70	American Retirement	\$233.69

*For zipcode 25711, accessed April 1, 2017

Provided by CSG Actuarial, csgactuarial.com

Notice the varying costs in both premium comparison reports. Every Medicare Supplement policy offered in each plan provides the same benefits, but at very different costs. You are able to switch Medigap plans anytime during the year, subject to qualifying based on your health history. If you are healthy enough, you could switch plans annually to save on costs without sacrificing your coverage.

Premiums can be compared through some state insurance department websites, and many independent insurance agents can produce a report that covers multiple companies' policies. We suggest that you find a trustworthy agent who can help you understand your options and find the lowest-cost plan.

Reading Check

While having coffee with your sister Ivy, she tells you she was able to change her Medicare Supplement to a less expensive plan. How was Ivy able to change her supplement? Will she get the same kind of coverage?

2.5 How Does Medicare Prescription Drug Coverage (Part D) Work?

Medicare offers prescription drug coverage to all beneficiaries. Even if you don't take many prescriptions, you should consider joining a Medicare drug plan. That's because if you decide not to join one when you are first eligible, you will likely pay a late enrollment penalty if you delay without demonstrating you have creditable coverage. This penalty will last as long as you have prescription drug coverage. People who have other kinds of creditable coverage or receive assistance from the Extra Help program (see below) can avoid late enrollment penalties.

To get Part D coverage, you must enroll in a plan approved by Medicare. Plans can vary in cost and the specific drugs covered. There are two ways to obtain Medicare Part D: Prescription Drug Plans (PDP) and Medicare Advantage Plans (MAPD).

Medicare Prescription Drug Plans add drug coverage to Original Medicare. You must have Part A or Part B to enroll in a Medicare Prescription Drug Plan.

Medicare Advantage Plans combine benefits from Part A, Part B, and Part D into one plan. You must have Part A and Part B to join a Medicare Advantage Plan, and not all Medicare Advantage Plans offer prescription drug coverage.

If you choose a Medicare Advantage plan you will receive your Medicare benefits from a private insurance company. You will still need to pay for Part B and any additional Medicare Advantage premium. Unlike Medicare Supplement policies, the premium for Medicare Advantage policies can be deducted from your Social Security check.

Reading Check

Larry and Connie have been trying to determine their Medicare Prescription Drug Plan coverage. Larry tells Connie he found a PDP that would provide her with drug coverage. Connie told Larry that she doesn't want to have multiple policies; she already has a Medigap policy. How can Connie get drug coverage without buying a PDP?

2.6 The Extra Help Program or Low-Income Subsidy (LIS)

Extra Help is a Medicare program that helps people with limited resources pay Medicare prescription drug costs. If you qualify for this low-income subsidy program, the government will pay your Part B premium and reduce your Part D drug co-payments. (Note: This program is different from Medicaid.) In 2015, the qualifying threshold for a single person was annual income less than \$17,665 and financial resources less than \$13,640. Financial resources include money in a checking or savings account, stocks, bonds, mutual funds, and Individual Retirement Accounts. Your home, car, household items, burial plot, and up to \$1,500 in prepaid burial expenses or life insurance policies do not count toward your financial resources. For a married couple who lived together and had no other dependents, those income limits were \$23,895 and \$27,250, respectively, in 2015. These figures can change from year to year.

In some situations you can qualify for Extra Help even if your income is above the limits established by Medicare. If you still work, live in Alaska or Hawaii, or have dependents living with you, you might be eligible for Extra Help. If you qualify for Extra Help and join a Medicare Prescription Drug Plan, you will get help paying for your monthly premium, yearly deductible, co-insurance, and co-payments. You will have no “donut hole” or coverage gap, and late enrollment penalties can be waived. Those on Extra Help have the option to switch Medicare Advantage plans and Prescription Drug Plans at any time during the year, even outside of the Annual Enrollment Period. Any change they make will take effect the first day of the following month.

Reading Check

Charlotte has been struggling to pay her Part D premium. She does a bit of research and learns about Extra Help. What are the income and asset limits that Charlotte would have to meet to qualify for Extra Help? What would they be if she was married?

2.7 Higher-Income Beneficiaries

People who have a higher income than the average Medicare beneficiary will notice higher premiums for their Part B and Part D coverage. These income-related monthly adjustment amounts (IRMAAs) are based on your most recently filed tax return (for calendar year 2017, information from your 2015 tax return on file with the IRS is requested by Medicare). These surcharges affect less than 5% of Medicare recipients, so most people don't pay a higher premium. Details of these adjustments are covered in Module 7: Income Taxes.

Reading Check

Orson and Amelia tell you they have heard about different Medicare rules for those who have a higher income. What would you tell them?

2.8 Medicare and Long-Term Care

It is an easy mistake to think that government programs like Social Security and Medicare will fully protect retirees from poverty and health-care costs. Assuming that all health-care costs are covered is a major financial mistake. **Medicare does not pay for long-term care**, the non-skilled medical care that people require when they are unable to perform the necessary activities of daily living. Long-term care can be extremely expensive and is not covered by Medicare, Medicare Advantage, or Medicare Supplements. Government benefits like Tricare and the Federal Employees Health Benefits (FEHB) also do not cover long-term care costs.

Reading Check

Beatrice runs into you at the supermarket. You haven't seen each other in ages. While catching up, she mentions that her brother-in-law Ted is going to need some kind of long-term care. Beatrice says she is thankful that Ted has Medicare because they don't know if they could afford that care without it. Is Beatrice correct in this thinking? Why or why not?

PLANNING FOR MEDICARE

Under 65

Month/Year I turn 65:/20.....

Spouse/20.....

Current Health Insurance:.....

65+

Part A Start Date:/...../.....

Part B Start Date:/...../.....

Part D Plan:.....

Medicare Supplement:

Spouse

Part A Start Date:/...../.....

Part B Start Date:/...../.....

Part D Plan:.....

Medicare Supplement: