



# The Role of Medicare in Retirement

*Are you prepared?*

Scarborough Capital Management  
Resource Series

SCARBOROUGH  
CAPITAL MANAGEMENT

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### SCARBOROUGH CAPITAL MANAGEMENT

## Introduction

A 2019 study by the *Insured Retirement Institute* revealed that 45% of those between the ages of approximately 52 and 70 “have no retirement savings today,” though about half of those without savings had cash at one point.<sup>1</sup> That is a staggering and sobering realization.

As the population ages and retires in greater numbers, some of those who call it a career will be faced with some challenging financial hurdles to clear. One of the largest that will be encountered is the cost of healthcare, which is rising at a rapid pace.

“*What about Medicare?*” you ask. It’s true that Medicare may be available for those who have qualified, however it does have its limitations.

Before you panic though, there are ways to prepare for your future healthcare needs using Medicare as a supplement to your plan.

In this guide, we’ll look at some of the basics of Medicare, what health care costs you’ll need to cover yourself, and how you can best manage this often complex wellness system.

<sup>1</sup> *ISI Study* – [https://www.myirionline.org/docs/default-source/default-document-library/iri\\_babyboomers\\_whitepaper\\_2019\\_final.pdf?sfvrsn=0](https://www.myirionline.org/docs/default-source/default-document-library/iri_babyboomers_whitepaper_2019_final.pdf?sfvrsn=0)

## What exactly is Medicare?

Medicare is a health care insurance program for those over 65 years old or disabled, which is funded through the federal government. Some people automatically qualify before 65 to receive Medicare, such as those that are already receiving Social Security, or those with a qualifying disability.

For everyone else, there is a process to begin receiving benefits. Generally, you are eligible to register during a seven month window around the month that you turn 65.

For example, if you turn 65 on July 1, the window would start three months before July (April through June), and then extend three months after (August through October).

If you miss this window you may still register for Medicare Part A, provided you meet certain requirements. For Part B however, you would have to wait until the open enrollment period, which begins on January 1 and runs through March 31.

Also be careful that if you miss the open enrollment period for Part B, there may be a late enrollment penalty you'd have to pay.

## Medicare Parts A-D

**Part A** - This part will offer coverage if you are hospitalized and comes at no cost, provided you paid Social Security for at least 10 years.

**Part B** - For times you visit the doctor, receive physical therapy, and experience other “outpatient” costs, as well as have some preventative tests and screens, Part B can pick up the tab.

This will cost a you a premium though, and amounts will vary based on your situation.

**Part C** - The most confusing part, Part C, is also called “Medicare Advantage.” It is a combination of Parts A and B, and comes with lots of rules and regulations.

Essentially, Medicare manages private plans and offers coverage that in some cases are superior to Parts A and B.

Now the drawbacks. First, not all coverage is better than what's available in A or B, and second you'll also pay a premium based on a variety of factors. Lastly, something very important about Part C is that if you have this coverage and also what's known as "Medigap" coverage through a private insurer, the Medigap coverage won't pay anything. In other words, don't carry both.

**Part D** - Medicare Part D is actually managed by a private insurance company. This plan covers prescription drug needs, and is a bit more straightforward than Part C. With typical Part D coverage, you pay a premium and are then required to meet a small annual deductible before you receive benefits. Once you meet the deductible, your plan will pay some (or even sometimes all) of your costs up to about \$2,500.

Here's the confusing part: once you reach that, you are responsible for all of your costs until you reach the next level of just over \$4,000. At that point, you're covered again and are only responsible for about 5% of costs from there up.

## Should you look for more coverage?

Although Medicare will take a good amount of the burden off of your health care costs, it doesn't alleviate all of them. It's estimated that Medicare will only cover about 60% of your health care needs in retirement, so it's critical that you have additional coverage and additional savings (which we will cover shortly).

**Medigap** - On the coverage side, one way to do this is through a Medigap plan. To purchase one of these plans, you must first have Medicare Part A and B plans. Next, you would purchase Medigap through a private insurer, paying them a monthly premium.



These plans can sometimes cover copays, coinsurance, and deductibles that regular Medicare doesn't. Be aware though, these plans sold after January 1, 2006 don't include prescription drug coverage, so you'll need Part D for that. Also, if you are married, your spouse would need a separate Medigap plan, as they only cover one individual.

**Dental & vision** - Since Medicare or typically Medigap plans don't include dental or vision coverage, you'll need to get those plans separately too. The good news is generally speaking, these plans can be relatively affordable and easy to get.

**Long-term care insurance** - Another area that may be more tricky though is long-term care insurance, which also isn't covered by Medicare. When an individual reaches a point where they have difficulty living by themselves on a daily basis, long-term care insurance can provide funds that can help that person receive the care they need.

*Long-term care insurance covers the costs for assistance with Activities of Daily Living, such as eating, bathing and dressing.*

This is insurance that covers the costs for assistance with what's known as Activities of Daily Living (ADL), such as eating, bathing, and dressing. Additionally, this care may cover assisted living facilities, adult day care, and even at home care.

Be aware though that these plans have benefits and drawbacks, and could be a great fit or pretty useless, depending on your situation. Also, since this coverage costs much more to register for the older you are, it really pays to look into this when you're younger and healthy. That's why it's best to do your homework and talk to financial and health professionals when looking into this type of plan.

## How much will you need to save?

It's been estimated by various studies that for the average 65 year old retiring couple, a total of anywhere between \$200,000 and \$250,000 will be needed for healthcare (and this does not even include the cost of long-term care). This may seem like a daunting figure to prepare for in addition to other costs of retirement.

And what happens if you retire early? Well, your employer may still offer you healthcare coverage, but this benefit is something that's going away slowly.

Also, if your employer promises healthcare coverage after you retire, take it with a grain of salt. There have been cases where employers have cut the coverage of retired employees, thus leaving these individuals scrambling for how to pay for care. If you are in this situation, be sure to factor in a contingency plan in the event that the rug gets pulled out from under you.

As an early retiree, your coverage options may include:

- COBRA
- Your spouse's health insurance
- Retiree health insurance benefits
- The public marketplace
- Private health insurance

You'll need to plan carefully to cover the health insurance gap until Medicare kicks in.

## How you can save or reduce costs

There are several ways that saving for healthcare or lowering costs can be accomplished. A Health Savings Account, or HSA is one way to help pay for coverage.

This account is funded with pre-tax dollars, and if used on qualified health expenses the money can be used tax-free. This is a good idea for those who are young and healthy, since it allows tax-advantaged growth in conjunction with a way to save for medical expenses.

It's not the best idea however, for those who are nearing retirement and



are planning on enrolling in Medicare, since once you enroll you're no longer eligible to contribute to your HSA. Another note on HSAs is that they are only available if the individual or family has a high deductible health plan.

Don't forget that stocks are also an option. While this may not seem like a good idea to some, if you're going to be retired for maybe 30 years, you'll need to have some type of savings with growth potential.

It's easy to fall into the trap of thinking that all of your money should be in low-risk, conservative investments, especially after recent market volatility. But in reality, any of this "safe" money is going to be outpaced by inflation sooner than you may think.

Another way is to make sure that you are getting the benefits you deserve. It may be very frustrating and time consuming to deal with insurance companies, but taking the extra few minutes to look over your bills can save you hundreds. Mistakes can and do happen.

Lastly, ask lots of questions, especially prior to having a procedure done. Costs can add up, and sometimes what you think should be covered in-network actually isn't. This can save you time, money, and headaches down the road.

## Early retirement? Here's what you can do

This can happen for a number of reasons, and while we may not be considering an early retirement, sometimes what we plan for in life doesn't always work out the way that we thought. If you retire and are not yet eligible for Medicare, you may have a few options.

The first is through the Consolidated Omnibus Budget Reconciliation Act, better known as COBRA. Through this program, you are allowed to keep your previous employer's insurance plan for 18 months. This however, can be extremely costly and better options may be available.

Another is through the Affordable Care Act. Insurance can be purchased through the federal exchange, or

through one established by your state. While this will provide insurance coverage (even with an income-based subsidy for some), it probably won't cover everything. Deductibles, copays, and possibly even prescriptions could come out of pocket. More information on how to go about this process can be found on [healthcare.gov](https://www.healthcare.gov).

Lastly, if you're married and your spouse is still working, you can research coverage options through his or her employer. This may be more cost effective and provide better coverage than even what's available through the exchanges, depending on your income level.

## What are my next steps?

Personally, we recommend two main areas to focus on in terms of planning for future healthcare costs.

The first has to do with saving. It is never a bad idea to save earlier and more regularly than you think. With the power of compounding interest, the money you put away first will be worth the most down the road, so start this process yesterday.

(When you're 65, you will thank your 25 year old self that you did this...trust me.)



The other part is to make sure you stay informed and seek help if needed. Stay up to speed on healthcare news and studies that may be pertinent to your own situation, and take some time to really learn about your care options. But as healthcare continues to become more and more complex, no one is going to have all the answers. Given that, it's perfectly acceptable and even recommended to ask a professional for help.

While no one knows what the future will hold, by preparing today for the healthcare needs of tomorrow, you can reduce stress and feel more confident with your finances.



## About Scarborough Capital Management

For over two decades, Scarborough Capital Management has provided comprehensive wealth management services to busy individuals and families who don't have the time to develop and manage a portfolio. What sets our company apart is our inherent interest in helping everyone from the mid-level employee to the top-tier executive preparing for retirement. Our services include a comprehensive array of financial planning support for people in all stages of life, including 401(k) and 403(b) Management, Thrift Savings Plan (TSP) Management, Wealth Management, Personal Pension Analysis, Social Security Analysis and Financial Planning.

If you have questions about how current events affect your portfolio strategies, please contact our office.

## How to contact us

The professionals at Scarborough Capital Management can be contacted by:

Phone: 800.200.3870

Email: [info@scmadvice.com](mailto:info@scmadvice.com)

Online: [www.scmadvice.com](http://www.scmadvice.com)

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