



# Medicare Late Enrollment Can Cost Your Clients More than Cash

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by Stacy Rush

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Advisors may be surprised to learn that once a client turns 65, traditional health insurance in the individual marketplace is no longer available. The reason: Medicare is intended to be the primary source of insurance coverage for people 65 and older, with supplemental plans provided by private carriers to fill in the coverage gaps.

For this reason, as your clients approach the age of 65, it is important to address the health insurance exposure in order to avoid potential coverage gaps and penalties assessed if the Initial Medicare Enrollment Period is missed.

## **Who and when to enroll**

If your client is 65, no longer working and receiving Social Security, he or she has likely been enrolled automatically for Medicare Parts A and B. However, if your client is retired and deferred receiving Social Security benefits, he or she will likely need prompting to enroll in Medicare upon turning 65.

Many clients are under the impression it is unnecessary to enroll in Medicare Part B when receiving health insurance coverage under a retiree group insurance plan, but this is not the case. Medicare considers 'retiree' plans to be secondary to Medicare Part B, and when not enrolled, can leave a client subject to coverage gaps and late penalties.

Enrollment in Medicare takes place during a seven-month period based on your client's birthday, referred to as the Initial Enrollment Period. The period begins three months before the month a client will turn 65, includes the month he or she turns 65 and ends three months after the month of the birthday. For example, if Bob turns 65 in June, his Initial Enrollment Period begins in March and ends in September. As long as your client enrolls during the initial seven month window, he or she avoids penalties and gaps in coverage.

Do you need to help a client sign up for Medicare? It is now easily accomplished online and will take about ten minutes.

## Current cost of Medicare Part A and B

Medicare Part A covers hospital related services, and for clients or spouses who have paid Medicare taxes while working, Medicare Part A is premium-free.

Medicare Part B covers physician-related services, and according to Medicare.gov the current monthly premium paid is related to your client's taxable income as follows:

2014 FILED INDIVIDUAL TAX RETURN	2014 FILE JOINT TAX RETURN	2014 FILE MARRIED & SEPARATE TAX RETURN	2016 MONTHLY MEDICARE PART B PREMIUM
\$85,000 or Less	\$170,000 or less	\$85,000 or less	\$121.80
\$85,000+ to \$107,000	\$170,000 to \$214,000	N/A	\$170.50
\$107,000+ to \$160,000	\$214,000 to \$320,000	N/A	\$243.60
\$160,000+ to \$214,000	\$320,000 to \$428,000	\$85,000+ to \$129,000	\$316.70
\$214,000+	\$428,000+	\$129,000+	\$389.80

## Consequences of missing the enrollment deadline

### *Late enrollment penalty*

If a client does not sign up for Part B when first eligible, a 10% penalty is assessed to the Medicare Part B premium for each 12-month period in which they were eligible for Part B but were not enrolled.

For example, if Bob's Initial Enrollment Period ended in September 2009, but he did not sign up for Part B until March 2012, a total of 30 months passed from the end of Bob's Initial Enrollment Period. In this scenario, a 10% penalty is assessed for each 12-month period without Medicare Part B coverage, so Bob would pay a 20% penalty on the amount of his Part B premium. Keep in mind that this is not a one-time penalty, Bob will pay the 20% penalty on his premium for the entire time he carries Medicare Part B.

### *Coverage gap*

While the late enrollment penalty can be costly for your client, a gap in coverage can be financially devastating.

If your client misses the Initial Medicare Enrollment Period, the next opportunity to enroll is during Medicare's General Enrollment Period, which runs from January 1 to March 31 each year. However, the coverage would not begin until July 1st.

Because insurance carriers do not offer individual health insurance coverage for those over the age of 65, a coverage gap would occur if your client was not covered by a qualifying group health insurance plan, thereby self-insuring all medical claims until coverage commences.

### **Is there ever a time to delay Medicare Part B enrollment?**

Yes! There are scenarios when a delay in signing up for Part B is appropriate and would not include the risk of late penalties, for example:

1. The client is covered by a group health insurance plan from an employer who has 20 or more employees, and the client is still working.
2. The client is covered by a spouse's group insurance plan through his/her employer with 20 or more employees, and the spouse is still working.

To avoid the penalty and coverage gap pitfalls, the two key conditions are that your client or their spouse must be an active employee, not a retiree, and the company must have 20 or more employees.

### **Beware of the COBRA trap**

Finally, recognize that Medicare does not consider COBRA and retiree coverage as a qualified group health insurance plan.

Once a client who is 65 and not enrolled in Medicare Part B loses an employer-sponsored health plan, he or she qualifies for a Special Enrollment Period allowing the client eight months to enroll in Part B.

The Special Enrollment Period clock starts on the earliest date when your client loses company-sponsored health benefits or on the last day of employment.

Unfortunately many clients believe continuing health insurance through COBRA and/or retiree health insurance coverage is the same as having an employer sponsored health insurance plan; it is not.

*Stacy Rush is the director of risk management for Pathstone Federal Street, an independent, integrated wealth management organization that provides multi-generational financial management and customized investment advisory. Our mission, employing a fully aligned and advocacy focused model, is to empower each family to define and surpass their dynastic goals.*