

Medicare and Medicare Supplement Insurance Basics

By: David Leo, President of Western Mutual Insurance® & WMI TPA®

Although I have been involved in the sale of Medicare Supplement policies for many years, it wasn't until recently that I had the opportunity to become more familiar with these products from the perspective of a consumer as a certain family member (who shall remain nameless) approached her 65th birthday. As I worked through many of her questions and concerns trying to figure out which Medicare Supplement plan would work best for her, I decided I should take advantage of that experience to help any interested reader better understand the basics of Medicare and Medicare Supplement insurance policies.

In order to understand Medicare Supplement (also known as Medigap) insurance, one must first develop a basic understanding of Medicare and its four component parts. Medicare is a health insurance program for people age 65 or older, people under age 65 with certain disabilities, and people of any age with end-stage renal disease ("ESRD"). Medicare is not to be confused with Medicaid which is a joint federal and state program that helps with medical costs for some people with limited incomes and resources. Medicare has two main components: (i) **Medicare Part A**, which is the hospital insurance component of Medicare that helps pay for inpatient hospital care and care at skilled nursing facilities; and (ii) **Medicare Part B**, which is medical insurance that helps pay for doctor services and outpatient hospital care. Medicare Part A is free for most people because they or a spouse had sufficient qualifying employment prior to their eligibility. Medicare Part B requires the participant to pay a premium of about \$80 per month.

In addition to Medicare Parts A and B, the federal government recently added Medicare Part C and Part D to the Medicare program. **Medicare Part C** is generally known as "Medicare Advantage" and it is an alternative to traditional fee for service Medicare in that it utilizes the cost-saving measures of managed care through HMO-type plans. **Medicare Part D** is generally known as the Medicare prescription drug plan which, as of January 1, 2006, will allow Medicare beneficiaries the option to purchase a separate prescription drug benefit (unless they are already covered under a privately-operated health plan that includes a prescription drug benefit). The Medicare Part D benefit, which is expected to cost participants about \$37 per month, will have a \$250 deductible and will pay the following: (i) 75% of the first \$2,250; (ii) nothing for the next \$3,600; and (iii) 95% of the drug costs in excess of \$5,850 each year.

Now that we have a handle on the four basic Medicare parts, we can turn our attention to the 10 different Medigap plans that are designed to supplement or fill in the gaps of Medicare's coverage by paying the part Medicare does not cover. These Medicare Supplement policies, which are not to be confused with Medicare Parts "A" through "D," are standardized plans that are generally available in ten options known as "Plan A" through "Plan J." It should be noted that two new Medicare Supplement plans ("K" and "L") were recently introduced, however, because these plans have not gained widespread popularity, they will not be addressed in this article.

Because the ten Medicare Supplement plans are designed and standardized by the federal government, all insurance companies that offer these plans are offering the same benefits. The major differences between the Medicare Supplement policies offered by different insurance companies is the cost of the policy and the customer service provided by the insurance company. It is also important to consider the manner in which rates are calculated (*e.g.*, composite age, issue age or attained age) and the long-term effects of the rating method.

The Medicare Supplement Plan A is the cheapest Medigap policy and it offers only the following most basic supplemental benefits: (i) partial payment toward a hospital stay covered under Part A of Medicare; (ii) partial payment toward doctor services and outpatient hospital care covered under Part B of Medicare; and (iii) coverage for the first three pints of blood each calendar year.

Various benefits are added to the different standardized Medicare Supplement Plan until Plan J, the richest plan, is reached. Plan J includes the same basic benefits found in Plan A, but it also includes limited coverage for the following: (i) skilled nursing facility coinsurance; (ii) Medicare Part A deductible; (iii) Medicare Part B deductible; (iv) Medicare Part B excess charges when the doctor doesn't accept the Medicare fee; (v) foreign travel emergency; (vi) at-home recovery; (vii) preventive care; and (viii) prescription drugs at 50% up to a maximum of \$3,000 per year. It is important to remember that after January 1, 2006, the prescription drug component of Plan J will no longer be available to new Plan J enrollees who must select Medicare Part D if they wish to have a prescription drug benefit.

I realize the foregoing information just barely scratches the surface of this area of benefits, but there are a number of resources that can guide you through this very complex area. Medicare Supplement benefits are thoroughly explained in the Centers for Medicare & Medicaid Services ("CMS") publication called "Choosing a Medigap Policy: A Guide to Health Insurance for People with Medicare." A copy of this publication can be obtained from our office or by contacting 800-MEDICARE (800-633-4227). Another very helpful Medicare publication is the "Medicare & You" handbook. A copy of this publication can be obtained by going to www.medicare.gov, clicking on Search Tools at the top of the page, and entering CMS Pub. No. 10050, or by calling the 800-MEDICARE phone number.

If you have any questions about Medicare Supplement insurance policies or your company's insurance program or would like to learn how WMI might be a good option for your company benefits, please feel free to contact me or our Marketing Department at (801) 263-8000. I would also invite you to visit our website at www.westernmutualinsurance.com.