

Medicare open enrollment has started -- 2 things you must get right

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Updated on: October 16, 2018 / 2:31 PM / MoneyWatch

One of the best things about reaching age 65 is becoming eligible for Medicare and obtaining much-needed health insurance without worrying about exclusions for pre-existing conditions. But if you're not savvy about enrolling in Medicare, you could fall into several traps that can cost you thousands in uncovered medical expenses.

Fortunately, you can avoid these pitfalls by making smart choices about your Medicare coverage. With Medicare's open enrollment period running through December 7, you have a golden opportunity to make changes that might better serve you in the years to come.

Trap #1: Failing to cover your gaps

Many people assume that because Medicare is called "medical insurance," it's similar to their employer's medical insurance that protected them during their working years. But that's wrong.

Employer-sponsored health care plans typically have one set of deductibles and copayments, and you only need to pay one premium to obtain comprehensive coverage. Not so with Medicare – it's much more complicated than that. Traditional Medicare has three different parts that cover hospital, outpatient, and prescription drugs – called Parts A, B, and D, respectively. Each part has its own set of premiums, deductibles and copayments.

As a result of having these three different parts, many retirees mistakenly assume that Medicare provides all the coverage they need. Or they think they're healthy and won't need additional insurance coverage beyond Medicare. Then they're shocked when they experience their first significant medical claim and are forced to pay thousands of dollars out-of-pocket.

Here are two examples of the differences between Medicare and comprehensive coverage from employers that can create significant out-of-pocket costs for individuals:

- Medicare's deductible for Part A, covering hospital expenses, is \$1,340 in 2018. Nowadays, it's likely that *any* hospital stay will cost more than \$1,340. The trouble is, you might have to pay it more than once in a calendar year. Let me explain: Suppose you go into the hospital and incur the \$1,340 deductible. But if you are readmitted

to the hospital during the same calendar year but after more than 60 days have elapsed since your previous discharge, you'll be in a new "benefit period" and will incur the deductible again. By contrast, with most employer plans, once you incur the deductible, you don't have to pay it again in the same 12-month period.

- Medicare has no out-of-pocket limits that cap your costs. Most employer-sponsored plans cap the total amount you might spend out-of-pocket on medical expenses during a year.

You can guard against these surprises by purchasing either a Medicare Supplement Plan (aka Medigap) or Medicare Advantage Plan. These plans are both designed to reduce Medicare's significant gaps. By one estimate, millions of retirees make the mistake of not purchasing such a plan to help close Medicare's gaps.

If you participate in Medicare and haven't already purchased one of these plans, Medicare's upcoming open enrollment period gives you a chance to buy such a plan -- but be aware of Trap #2.

Trap #2: Failing to plan for pre-existing conditions

Many people assume the Affordable Care Act prohibits an insurance company from excluding coverage due to pre-existing conditions. But that's not the case in certain situations. This potential trap occurs when older workers first become eligible for Medicare at age 65. At that time, they can choose between two alternatives:

1. Traditional Medicare, where you elect to be covered by Parts A, B and D, resulting in the most complexity in your coverage. The advantage of this election is that you can choose any health care provider that accepts Medicare payments. In this case, it's smart to also purchase a Medigap Plan to supplement Medicare.
2. A Medicare Advantage Plan (Medicare Part C), which is a single plan that combines and simplifies Medicare coverage and also helps cover Medicare's significant gaps. However, with this plan, you're typically restricted to using the health care providers in the plan's network.

The problem may arise if you later want more freedom to select health care providers, such as in the case of a serious medical condition. In that happens, you may want to move from a Medicare Advantage Plan to Traditional Medicare during Medicare's open enrollment period.

While you're permitted to switch to Traditional Medicare during open enrollment, you might not be able to purchase a Medigap Plan. That's because most insurance companies apply medical underwriting for Medigap plans, which means they can either deny coverage due to pre-existing conditions or charge a higher premium. Note, however, that you can change from one Medicare Advantage Plan to another at open enrollment without needing to satisfy medical underwriting, or newly enroll in a Medicare Advantage Plan.

As a result, newly eligible Medicare retirees should make their choice regarding a Medigap Plan or Medicare Advantage Plan with the rest of their lives in mind. They might not get the chance for a "do-over" later if they initially enroll in a Medicare Advantage Plan and later want to switch to a Medigap plan.

If you're currently participating in a Medicare Advantage Plan and are healthy, and if you think that at some point in your life you might appreciate the flexibility to choose health care providers, you might want to apply for a Medigap Plan during the upcoming open enrollment to see if you can meet their underwriting requirements.

Unfortunately, these two traps aren't the only pitfalls for Medicare enrollees. You'll also need to make smart choices for selecting a prescription drug plan.

In addition, Medicare doesn't cover most expenses for dental, vision or hearing aids. All these topics are covered in my latest book, *Retirement Game-Changers: Strategies for a Healthy, Financially Secure, and Fulfilling Long Life*, where you'll find information on all the critical choices facing older workers as they transition from the workplace into retirement.

Living a long time in retirement will require spending some time to make wise choices in a number of areas. Smart decisions regarding Medicare will help keep you healthy and alive and can prevent you from having to spend unnecessary money on health care expenses.

First published on October 16, 2018

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