



Your complete guide to Medicare

Medicare can help defray the costs of health care in retirement. We'll break down everything you need to know about the program and see why enrolling doesn't have to be overwhelming.



How will you plan for health care in retirement?

Medicare will cover a big chunk of the cost.

In retirement, you have plenty of time to ponder life's thornier questions: Should you play 9 or 18 holes today? Isn't it time to book that trip to Europe? How will you spoil the grandkids next time you see them?

Something else you might find yourself asking: If my health changes, can I afford the care?

No doubt, retirement is a fun time, but it can also be nerve-racking. You spent all those years saving money, adhering to your plan, and building a nest egg to pay for everything you need and still have something left for your family. But you can't predict the future state of your health — and that's potentially a very expensive unknown. According to a 2022 analysis from the Employee Benefit Research Institute, a 65-year-old couple in good health would need to save \$301,000 to ensure a 90 percent chance they'll be able to cover their combined health care costs in retirement.



How will you plan for health care in retirement? Medicare, the government-sponsored health plan that covers Americans 65 and older, will cover a big chunk of the cost. But Medicare won't cover all your health expenses. Additional costs related to dental, vision, hearing and other care typically aren't included. The deductibles, copays and supplemental insurance options through Medicare may also be significantly higher than the employer-sponsored plan you enjoyed during your working days. Even when you are covered, Medicare can be difficult to understand.

In this guide, we'll break down every component, so you can build these cost considerations into your overall retirement plan. From things like what is and isn't covered to the function of each of the four parts of Medicare, and when to enroll, you'll know it all.

WHAT IS MEDICARE?

Medicare is a federally administrated insurance program that guarantees access to health insurance for most Americans aged 65 and older. It's also available to certain people under the age of 65, including younger disabled workers, people with kidney disease requiring dialysis and people with ALS (commonly known as Lou Gehrig's disease). Unless you have insurance coverage from, say, a current employer, you are required to enroll when you become eligible at 65 or face penalties (more on that later).

You can rely on Medicare as your primary source of health insurance coverage or to back up insurance coverage you already have through an employer, spouse, former employer or union. But Medicare will only cover a portion of your health care expenses in retirement, and you may need to purchase supplemental coverage for things like hearing aids, glasses and dental care.

Let's take a look at what is and isn't covered by Medicare, then we'll get into the details of each part of including costs, restrictions, and more.

WHAT MEDICARE DOES AND DOESN'T COVER

What is covered?

PART A	PART B	PART C
<ul style="list-style-type: none"> • Hospital care (with eligibility requirements such as doctors' orders or the facility's acceptance of Medicare) • Skilled nursing facility care • Inpatient care in a skilled nursing facility (not custodial or long-term care) • Hospice (if you're terminally ill) • Home health services • Some lab tests • Surgeries 	<ul style="list-style-type: none"> • Covers two types of services: Medically necessary doctor's services and supplies and preventive care • Clinical research • Ambulance services • Durable medical equipment • Mental health <ul style="list-style-type: none"> – Inpatient – Outpatient – Partial hospitalization • Some home health care • Getting a second opinion before surgery • Limited outpatient prescription drugs 	<p>Each Medicare prescription drug plan has its own list of covered drugs (called formulary). Many Medicare drug plans place drugs into different "tiers" on their formularies. Drugs in each tier have a different cost. A drug in a lower tier will generally cost you less than a drug in a higher tier.</p>

Source <http://www.medicare.gov/what-medicare-covers/index.html>

What isn't covered?

Many people are often surprised that Medicare does not offer vision or dental coverage. In addition, Medicare offers coverage only in the United States, which could be an issue for people considering vacationing or even retiring abroad. You'll always want to verify whether a medical item or service is covered by Medicare. Below we've highlighted some of the most common items not covered by Original Medicare:*

- Long-term care (also called custodial care)
- Routine dental care
- Routine eye care
- Cosmetic surgery
- Acupuncture
- Orthopedic shoes
- Dentures
- Hearing aids and related exams
- Routine foot care (corns, bunions, etc.)
- Care outside the United States

*Original Medicare typically refers to Medicare Parts A and B.

Part A: Hospital insurance (required)

Medicare Part A will help cover:

Hospital stays for inpatient care, plus some costs for care in a skilled nursing facility, hospice care and some home health services. To be eligible for Part A without additional cost, you or your spouse will need to have had the Medicare tax withheld from your paychecks for at least 10 years (40 quarters, technically). You are also eligible for premium-free Part A coverage if you are on Social Security Disability Insurance.

If you didn't pay into the system for the required decade, you can purchase Part A, and those premiums will cost up to \$506 each month. In most cases, if you purchase Part A you'll also have to buy Part B and pay those premiums, too (see Part B section).

Part A will cover semi-private rooms, meals, general nursing and drugs as part of your inpatient treatment. It won't cover things like a private room or personal care items, like razors and toothpaste. If you require hospitalization or care at a skilled nursing facility, your out-of-pocket expenses will be determined by the number of days you require care. To understand these costs, you'll need to familiarize yourself with a benefit period.

Deductibles and copays explained

A benefit period begins the day you are admitted to a hospital or skilled nursing facility as an inpatient and ends when you leave the hospital and don't receive additional care for 60 consecutive days. Here's how the costs shake out as the days elapse:

- **Days 0-60:** When you are admitted to the hospital, you'll pay a deductible of \$1,600 but no coinsurance for these 60 days. Always be sure to ask if you're inpatient or outpatient each day during your stay because it affects what you pay and whether you'll qualify for Part A coverage. Staying overnight in a hospital doesn't always mean you're an inpatient.
- **Days 61-90:** If your stay extends past 60 days, you'll pay \$400 per day until day 90.
- **Days 91 and beyond:** You'll shoulder all the costs, or you can use so-called "lifetime reserve days" at a cost of \$800 a day. You are given a pool of 60 lifetime reserve days to cover inpatient costs beyond 90 days. You can choose when you want to use them, but your lifetime reserve days are never replenished.
- **Beyond lifetime reserve days:** If your stay surpasses 90 days and your lifetime reserve days are spent, you will be responsible for all costs.

To be eligible for Part A, Medicare tax needs to be withheld from your paycheck for at least 10 years.

Beginning a new period: If you go back to the hospital after a benefit period has elapsed (no additional care for 60 consecutive days), a new benefit period will begin, and you'll pay a \$1,600 deductible again.

When to use a reserve day: If the hospital costs are less expensive than one day of coinsurance, for example, you might want to pay them on your own. However, if your costs are quite a bit more, it might be a good idea to use a reserve day.

Additional reserve days: In most cases, if you purchased supplemental insurance it'll provide additional lifetime reserve days.



Part B: Medical insurance (required)

Medicare Part B will help cover:

Medically necessary doctors' visits and services, outpatient care, home health services, medical equipment, mental health services, lab work, x-rays, and preventative services. Basically, these are most of the services and supplies you need to treat a medical condition, as ordered by your doctor. The standard Part B monthly premium amount for 2023 is \$164.90, but it may be higher depending on your income (see Additional Costs and Considerations). In addition to the monthly premium, you also will pay a \$226 annual deductible and a 20 percent copay for most doctor services, outpatient therapy and durable medical equipment after your deductible is met.

Note: There is no cap for out-of-pocket expenses.

Part C: Medicare Advantage

Medicare Part C will help cover:

Everything that Part A and Part B does and some offer plans with even more coverage, such as for dental and vision. Part C, also known as a Medicare Advantage plan or MA plan, is a type of Medicare health plan that's offered by private companies. You still have Medicare if you go with Part C, you're simply getting Part A and Part B through institutions that contract with Medicare.

All Part C Advantage plans charge monthly premiums and copays, but those costs will vary depending on the provider. There may also be additional rules on how to obtain services; for example, you may need to get a referral to see a specialist or you may be required to use a health care provider within a specified network.

Part D: Prescription drug coverage (required)

Medicare Part D will help cover:

Any prescription the doctor writes you. Or, more accurately, a private insurance company that contracts with Medicare will provide coverage. That means there are several plans to choose from, and each covers a different selection of drugs and charges a different monthly premium. Therefore, it's really important to review your options to ensure you get the best coverage for the medications you're taking.

Like Parts A and B, you are required to enroll in Part D coverage or pay a penalty if you don't. And, as with Part B, if your modified adjusted gross income is above a certain threshold, you'll pay more (see Additional Costs and Considerations). For most people, Part D gets confusing once you dig into deductibles, copays and the "donut hole." So, let's break it all down.

Part D: Premiums, deductibles and copays – and the "donut hole"

There is a monthly premium for Medicare Part D plans, and the monthly premium varies based on the plan

When the doctor writes you a prescription, Part D will help pay for it.

you select. Since different plans cover different drugs, it is essential that you compare and decide which plan gives you the best coverage for the medications you're taking. Similar to Parts A and B, you are required to enroll for coverage. And like Medicare Part B, if your modified adjusted gross income is above a certain threshold amount, you will pay an Income-Related Monthly Adjustment Amount (IRMAA).

Perhaps the most confusing aspect of Part D coverage involves the deductibles, copays and the coverage gap commonly referred to as the "donut hole." Part D coverage will change as your medication costs add up throughout the calendar year. Here's an estimate of how your costs might change – just keep in mind that depending on which plan you go with your experience may be a little different.

THE COSTS ASSOCIATED WITH PART D (2023)

\$0 - \$505

(Deductible)

You'll pick up the tab for 100 percent of your medication costs until they total \$505. Some drug plans don't have this deductible.

\$505 - \$4,660

(Initial Coverage Limit)

At this point, you typically will pay 25 percent of your medication costs and your plan covers the rest. Once your medication costs exceed \$4,660 for the year, you enter the "donut hole."

\$4,660 - \$7,400

(Coverage Gap, aka the donut hole)

At this point, you still pay 25 percent of the plan's cost for covered drugs until you reach the end of the coverage gap. However, because of the way Medicare's calculations work, when you use brand name drugs, you typically get more credit toward getting out of the "donut hole" and into catastrophic coverage than you would with generic drugs.

\$7,400 and up

(Catastrophic Coverage)

Once you escape the donut hole and get catastrophic coverage, your share of medication costs comes down substantially for the rest of the year. You might only pay 5 percent of your plan's cost for brand-name drugs, for example.

When to enroll

It is incredibly important to mark your calendars for important enrollment dates, especially as you get closer to age 65.

If you're already getting benefits from Social Security or the Railroad Retirement Board, you'll automatically be enrolled in Part A and Part B starting the first day of the month you turn 65. If you are under 65 and disabled or have ALS, you'll also automatically receive Part A and Part B.

If you aren't enrolled automatically, there is a very specific timeframe when you are required to enroll or provide proof you are covered under another eligible plan. As you approach your 65th birthday, you'll want to begin this process. If you don't enroll in all the required parts of Medicare, you'll pay a penalty for the duration of your coverage – which means you'll likely pay the penalty for the rest of your life! This chart will help you identify when you can enroll. If your birthday is in October, for example, your enrollment period is between July and January.

Every year you'll also have an opportunity to change your Medicare coverage. The Medicare open enrollment period begins in mid-October and closes the first week of December. Your new coverage will take effect January 1 the following year. If you're enrolling in a Medicare Advantage plan, the enrollment period is January 1 through March 31.

BIRTH MONTH	ENROLLMENT PERIOD
January	October – April
February	November – May
March	December – June
April	January – July
May	February – August
June	March – September
July	April – October
August	May – November
September	June – December
October	July – January
November	August – February
December	September – March

If you are age 65, COBRA and retiree health plans do not qualify as coverage. You are still required to enroll for Medicare.

Avoiding penalties

Part A: If you are in a situation where you will have to pay for Part A and don't purchase it when you are first eligible, your monthly premium could increase by 10 percent. You'll have to pay that higher premium for twice the number of years you could have had Part A but didn't sign up. For example, if you delayed signing up for Part A for two years, you'll pay a higher premium for four years.

Part B: If you don't sign up for Part B when you are first eligible, your monthly premium may go up 10 percent for each 12-month period you could've had Part B. You'll pay that for as long as you have Part B. If your enrollment period ended September 30, 2020, and you waited until March 2023 to enroll, your penalty would be 20 percent. Even though you waited 30 months to enroll, only two 12-month periods elapsed, hence the 20 percent penalty.

Part D: As with the others, the cost of the penalty will depend on how long you went without Part D or other accepted prescription drug coverage. The penalty is calculated by multiplying 1 percent of the "national base beneficiary premium" (\$31.50 in 2023) times the number of months you didn't have Part D or other coverage. The monthly premium is rounded to the nearest 10 cents and added to your monthly Part D premium.

NOTE: In some cases, you might qualify for a Special Enrollment Period (SEP). If this is the case, you can delay enrollment in Medicare without paying a penalty. There are several situations and life events in which you can become eligible for an SEP. Check out Medicare.gov for more details.

Additional costs and considerations

Medicare Supplemental (Medigap) Coverage:

This is an insurance plan sold by private companies that can help pay for health care costs that aren't covered under Original Medicare, such as copayments, coinsurance and deductibles. Although it's an optional program, you need to be enrolled in Part A and Part B to purchase it. If you are worried about unknown out-of-pocket expenses, a Medigap plan might be a good option since there is no limit in how much you might pay out of pocket with original Medicare. There are several standardized Medigap policies that you can choose from to customize your coverage.

Of course, Medigap comes with an additional monthly premium; generally, Medigap will not cover long-term care, vision or dental care, hearing aids, eyeglasses or private-duty nurses. It's a good idea to work with a licensed health insurance professional to identify the best Medigap solution if you are looking to purchase it.

Health Savings Accounts (HSAs): In most cases, once your Medicare plan starts (including a retroactive period if it applies to you) you can no longer contribute to your HSA. However, you may still be able to contribute to your spouse's HSA if you're on a family plan. And you are permitted to withdraw funds you have accumulated in your HSA to help pay for medical expenses.

Income-Related Monthly Adjustment Amount

(IRMAA): The higher your income, the higher your premiums. If your modified adjusted gross income is above a certain amount, you'll pay more each month for your Part B and Part D premiums. It's important to note that when Medicare reviews your income (which includes 401(k) and IRA distributions) to determine how much you'll pay, they are actually looking at your income from two years prior. It is possible to request a reconsideration of your IRMAA if you have experienced a life-changing event that reduced your income. This could include a reduction in income when you retire. Below is a chart that shows how much you might pay based on your income.

PART B IRMAA CHART

If your filing status and yearly income in 2021 was ...

INDIVIDUAL	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY	YOU PAY EACH MONTH IN 2023
\$97,000 or less	\$194,000 or less	\$97,000 or less	\$164.90
Above \$97,000 up to \$123,000	Above \$194,000 up to \$246,000	Not applicable	\$230.80
Above \$123,000 up to \$153,000	Above \$246,000 up to \$306,000	Not applicable	\$329.70
Above \$153,000 up to \$183,000	Above \$306,000 up to \$366,000	Not applicable	\$428.60
Above \$183,000 and less than \$500,000	Above \$366,000 and less than \$750,000	Above \$97,000 and less than \$403,000	\$527.50
\$500,000 or above	\$750,000 or above	\$403,000 or above	\$560.50

Source: <https://www.medicare.gov/your-medicare-costs/part-b-costs>

PART D IRMAA CHART

If your filing status and yearly income in 2021 was ...

INDIVIDUAL	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY	YOU PAY EACH MONTH IN 2023
\$97,000 or less	\$194,000 or less	\$97,000 or less	Your plan premium
Above \$97,000 up to \$123,000	Above \$194,000 up to \$246,000	Not applicable	\$12.20 + your plan premium
Above \$123,000 up to \$153,000	Above \$246,000 up to \$306,000	Not applicable	\$31.50 + your plan premium
Above \$153,000 up to \$183,000	Above \$306,000 up to \$366,000	Not applicable	\$50.70 + your plan premium
Above \$183,000 and less than \$500,000	Above \$366,000 and less than \$750,000	Above \$97,000 and less than \$403,000	\$70.00 + your plan premium
\$500,000 or above	\$750,000 or above	\$403,000 or above	\$76.40 + your plan premium

Source: <https://www.medicare.gov/your-medicare-costs/part-b-costs>

LET'S PUT THE PIECES TOGETHER

Now that you know a little more about how Medicare works, it's important to make sure you're considering the costs as you develop your retirement plan. Your Northwestern Mutual financial professional can help you see how your current and future health care costs might affect your overall financial picture.

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² Ranking for **Northwestern Mutual Investment Services, LLC**. Measured by 2022 Revenue. Source: *InvestmentNews*, May 2023.

³ Loyalty is based on Northwestern Mutual client data.

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