



July Newsletter - 2017

OUR THOUGHTS

Medicare Premium and Copayments

More than one-half of working Americans know little or nothing about Medicare costs.

¹Not knowing can be expensive.

On average, people who haven't yet retired estimate they'll spend approximately \$50,000 on health care after retirement, according to a 2014 survey.¹ In reality, studies suggest it will cost almost five times that amount - even when retirees have Medicare coverage.^{1, 2}

What You Need to Know about Medicare

For retirees, health insurance coverage under Medicare typically starts at age 65. When you become eligible, you have a seven-month window to sign up. The period begins three months before the month you reach age 65 and ends three months after the month you turn 65.³

When you sign up, you have to make a decision about whether to enroll in Original Medicare or opt for a Medicare Advantage Plan. In general, Medicare offers these options:

Part A: Hospital Insurance. Part A is a component of Original Medicare. It generally covers hospital care, skilled nursing facility care, hospice, and home health services.⁴ Most people don't pay a premium for Part A because they paid Medicare taxes while working.⁵

People who are *not* eligible for premium-free Part A or don't enroll when they're first eligible may see their monthly premiums increase by 10 percent. They'll pay the higher

premium for twice the number of years they would have had to pay if they had signed up when they were first eligible. For example, if you were eligible for Part A for two years but didn't sign up when you were first eligible, you will have to pay the higher premium for four years.⁶

Part B: Medical Insurance. Part B is also a component of Original Medicare. It pays for preventative and medically necessary services not covered by Part A. For example, Part B helps pay for the cost of doctor visits, outpatient care, lab tests, physical therapy, medical equipment, and some home health care services.⁷

The standard Part B monthly premium amount for 2017 is \$134. However, many people who receive Social Security (and pay Part B premiums through their Social Security benefit) pay a premium of \$109. The premium can also be higher than standard, depending on the recipient's income.⁸

The Part B deductible is \$183 a year for 2017. Once it has been paid, participants typically owe 20 percent of the Medicare-approved amount for most doctor services, outpatient therapy, and durable medical equipment.⁹

If you miss the Part B enrollment period, you may have to wait until the next general enrollment period (January through March) to get coverage. There is an exception, though. If you're working at age 65 and have health insurance through an employer or a spouse's employer, you can delay Part B enrollment.³

If you missed the enrollment period and don't qualify for the exception, you may owe a late enrollment penalty, and your monthly premium may increase by 10 percent for each 12-month period you didn't enroll.¹⁰

Part C: Medicare Advantage Plans. These plans are offered by private insurers that contract with Medicare to provide Part A and Part B benefits (and sometimes Part D benefits) to people with Medicare. Most plans require you to use plan doctors, hospitals, and other approved providers.¹¹

Usually, Medicare Advantage Plans charge monthly premiums. You may also owe copayments or coinsurance for covered services. Total out-of-pocket costs depend on the plan you choose and plan costs can change each year.¹²

Part D: Prescription Drug Coverage. Part D provides Original Medicare participants with prescription drug coverage. The cost of premiums and the cost of drugs will vary by plan and income.⁹

Part D coverage has a gap, known as the "doughnut hole." *Kiplinger's* explained it like this:¹³

"In 2017, after you pay a deductible of up to \$400, you'll be responsible only for co-payments until your total drug costs reach \$3,700 (including your share and the insurer's share of the costs). At that point, the doughnut hole kicks in, and you'll have to pay 40 percent of the cost of brand-name drugs (50 percent is a discount paid for by the drug company and 10 percent is covered by the plan), and 51 percent of the cost of generic drugs. Once your out-of-pocket costs reach \$4,950 (including the brand-name manufacturer's

50 percent discount), you're out of the doughnut hole and you'll pay no more than 5 percent of the cost of each drug."

There are late enrollment penalties for prescription drug coverage, too.⁹

The Role of Supplemental Insurance

Americans who enroll in Original Medicare (Parts A and B) may purchase supplemental insurance, known as a Medigap policy, to help cover costs not paid by Original Medicare, such as copayments, coinsurance, and deductibles. These policies may also cover health care costs when traveling outside the United States.¹⁴

It's Important to Plan Ahead

Even with Medicare coverage, health care costs in retirement may be significant. *HealthView Services: 2016 Retirement Health Care Costs Data Report* leveraged data from 50 million health care cases and found:¹⁵

"Total projected health care premiums (Parts B, D, and supplemental insurance) for a healthy 65-year-old couple retiring this year are expected to be \$288,400 in today's dollars...If out-of-pockets such as deductibles, copays, hearing, vision, and dental are included in the calculation, expenses in today's dollars are expected to be \$377,412..."

Inflation in Retirement

It is also important to incorporate these and other rising costs into a retirement income plan to appropriately save and plan for inflation costs in retirement years. According to the report, "the principal driver behind rising medical expenses continues to be retirement health care inflation related to Medicare Parts B and D, supplemental insurance and cost sharing". "HealthView projects the annual retirement health care inflation rate will average 5.47% for the foreseeable future. That is almost triple the U.S. inflation rate of 1.9% between 2012 and 2016 and more than double the projected Social Security cost-of-living adjustments (COLAs) of 2.6%, according to the latest Social Security Trustees' Report." ¹⁶

"For example, Medicare Part B monthly premiums have risen 195% to \$134 in 2017 from \$45.50 in 2000 and average out-of-pocket costs for prescription drugs have increased 184% to \$3,132 in 2017 from \$1,102 in 2000. The average monthly premium for supplemental Medigap insurance has increased 122% to \$264.45 per month in 2017 from \$119 per month in 2000, according to the study. Overall, average medical out-of-pocket expenses for people age 65 and up are nearly double today compared to 2000, rising from \$6,140 per year to \$12,125 per year." ¹⁷

Medicare is an important benefit for retirees, but it may not cover all health care costs in retirement. If you would like to discuss creating a personalized retirement income plan that accounts for Medicare and the additional health care costs you may incur during retirement, please give us a call.

Sources:

¹https://institutional.fidelity.com/app/item/RD_13569_42402/retirement-planning-health-care-costs.html

²http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf

³<https://www.medicare.gov/sign-up-change-plans/get-parts-a-and-b/when-sign-up-parts-a-and-b/when-sign-up-parts-a-and-b.html>

⁴<https://www.medicare.gov/what-medicare-covers/part-a/what-part-a-covers.html>

- ⁵<https://www.medicare.gov/your-medicare-costs/part-a-costs/part-a-costs.html>
- ⁶<https://www.medicare.gov/your-medicare-costs/part-a-costs/penalty/part-a-late-enrollment-penalty.html>
- ⁷<https://www.medicare.gov/what-medicare-covers/part-b/what-medicare-part-b-covers.html>
- ⁸<https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html>
- ⁹<https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html#collapse-4810>
- ¹⁰<https://www.medicare.gov/your-medicare-costs/part-b-costs/penalty/part-b-late-enrollment-penalty.html>
- ¹¹<https://www.medicare.gov/sign-up-change-plans/medicare-health-plans/medicare-advantage-plans/how-medicare-advantage-plans-work.html>
- ¹²<https://www.medicare.gov/your-medicare-costs/medicare-health-plan-costs/costs-for-medicare-advantage-plans.html>
- ¹³<http://www.kiplinger.com/article/retirement/T027-C001-S003-how-medicare-part-d-coverage-gap-will-affect-you.html>
- ¹⁴<https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html>
- ¹⁵http://www.hvsfinancial.com/PublicFiles/2016_RHCC_Data_Report.pdf
- ¹⁶<http://www.investmentnews.com/article/20170614/BLOG05/170619969/retiree-health-care-costs-rising-faster-than-social-security-benefits>
- ¹⁷<http://www.investmentnews.com/article/20170605/BLOG05/170609973/social-security-cost-of-living-adjustment-predicted-for-2018>

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RFC NEWS

RFC Financial Planners Wins Practice of the Year Award!

Visit the link to view details along with an interview from Investment News.

<http://rfcfinancialplanners.com/rfc-financial-planners-wins-emerging-practice-of-the-year-award/>

New Clients and Referrals

Many thanks to all of our clients for allowing us the opportunity to serve you, your families, and your friends. In order to maintain efficiency and continue to provide the best possible service to our existing clients, going forward we will be more selective with accepting new clients and can only take on a limited number of new clients each year. Yes, we are still accepting new clients that are a good fit and encourage you to refer your friends and family members. Furthermore, we will never turn anyone away; our message is simply that we are unable to take on everyone, so in some cases we may provide services on an hourly basis rather than offering our full-services. This necessary approach will help ensure that we are able to provide the best possible service to all existing clients.

BUILDING UPDATES

MLive Article Link:

http://www.mlive.com/business/ann-arbor/index.ssf/2017/07/savas_owner_opening_new_restau.html

We have exciting news to share regarding our office location. As you may recall, we purchased the property of our current office location at 5400 Plymouth Rd in August of 2016. Up until that time the entire property and building were functioning as the only full-service dine-in restaurant and bar in the Village of Dixboro (located on the northeast side of Ann Arbor). After many months of planning for our office build-out and negotiating with a large and very successful restaurant operator, it was clear that they had much bigger plans for the property than simply having the restaurant share a portion of the property with our financial planning firm. Also, the community has expressed a strong desire to have a substantial restaurant back in this location. As a result, this restaurant entity made an offer to purchase our current property, which we accepted once we had identified a beautiful and historic building for our office just up the street toward the center of Dixboro. The great news is that we were able to upgrade the quality and functionality of the building to better suit our clients' and our needs. Once both transactions are closed, we expect to be moved into our new location at 5263 Plymouth Rd, Ann Arbor, MI sometime late Fall or early Winter. We will continue to provide updates along the way. Thanks again for your continued loyalty.



Our business continues to be successful because of great clients like you. If you know anyone else who is looking to simplify and organize their financial lives, please let us know. With their permission, we would be happy to contact them and introduce ourselves.

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