Social Security and Medicare Updates for 2018

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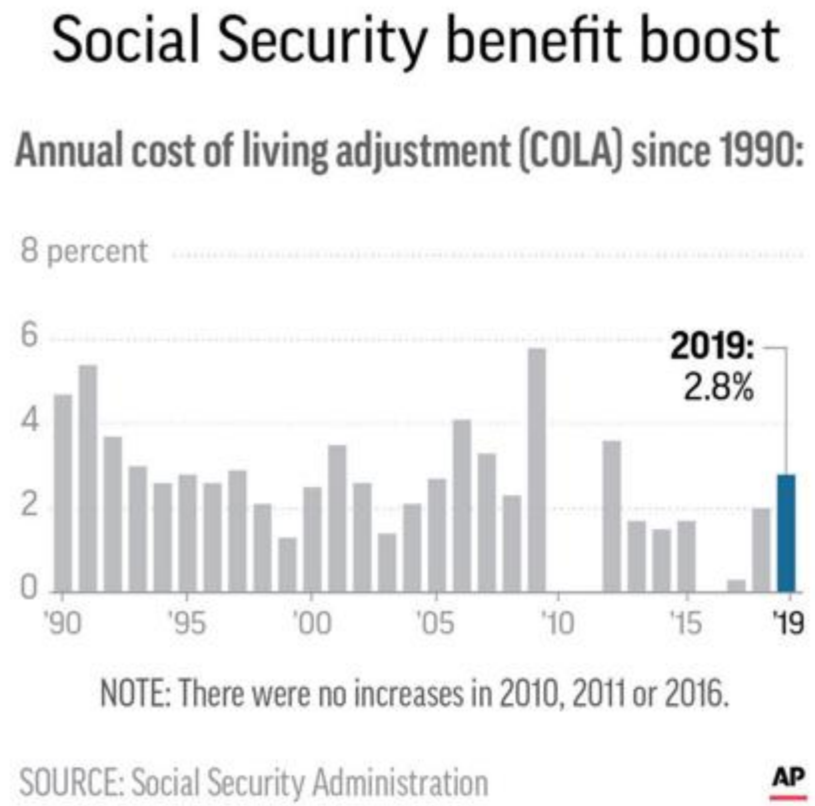
Like hurricanes Harvey and Irma last year, Florence and Michael have triggered inflation via higher gasoline prices in the 3rd quarter, boosting the expected increase in Social Security benefits by the most since 2012.

The Social Security Administration said it would provide a 2.8% percent cost of living adjustment in 2019, the biggest increase since 2012 and continuing the trend higher over the past two years.



How much is that? In 2018, the average monthly benefit for all retirees was $1,422. A 2.8% increase equates to $1,461 per month or an increase of $39 a month or $468 for 2019.

Many retirees should see a real increase in their net Social Security benefits, unlike 2018 when the 2% COLA was basically wiped out by a $25 increase in monthly Medicare Premiums.

Before you start wagering additional income on your mid-term election favorites, remember that one of the most important enrollment periods of the year kicks off today: The Medicare enrollment period begins on Oct. 15 and continues through Dec. 7.

During Open Enrollment, you can:

- Switch from Original Medicare to Medicare Advantage or vice versa.
- Switch from one Medicare Advantage plan to another.
- Switch to one Medicare Part D Plan to another.

Since healthcare inflation has regularly outpaced Social Security's annual COLA, it's not out of the question that Medicare could provide more in lifetime benefits to seniors than Social Security within the next couple of decades. Enrolling in Medicare, or an alternative plan known as Medicare Advantage, for those 65 and up, and ensuring that you choose the right plan, is crucial to both your financial and physical well-being.

As we're now into the 2019 enrollment period, we wanted to provide an update on what's ahead for premiums and income related Medicare surcharges.

1. **Continued good news on prescription drug costs**

Similar to this 2018, the average Part D (prescription drug plan) premium is set to drop slightly again in 2019 to $32.50, from $33.59 this year. While this is being touted in some circles as a success of the "Administration's Blueprint" directing new initiatives at the Center for Medicare and Medicaid Services (CMS) to increase competition to lower the cost of prescription drugs, the primary driver is a slower rate in the increase of expected drugs costs reflecting a consumer shift from brand-name to less expensive generic drugs.

Just because Part D premiums are falling, however, doesn't mean you should blindly remain enrolled in the same Part D plan as you had in 2018. Premiums and coverage commonly change from year to year on most plans, meaning that a plan that offered the best value in 2018 may not be the best value for you in 2019. We recommend shopping your Part D plan every year as both your plan and its formularies change. You can do this by clicking here and you'll want to closely examine the plans available to you to ensure that your prescription medicines are covered for the best possible price wherever you are most likely to get them (preferred drugstore). Failing to take this step and shop could wind up costing you big-time.
The prescription drug Donut Hole is almost closed in 2019. The gap in prescription drug coverage starts when someone reaches the initial coverage limit of $3,820 in 2019 and ends when they have spent $5,100 (these limits are $70 and $100 higher, respectively, than 2018). The Affordable Care Act has slowly been closing the donut hole since 2011, when Part D enrollees still paid the full cost of their medications when in the donut hole. For 2019, enrollees

will pay 25% of the cost of brand name drugs (down from 35% in 2018) and 37% of the cost of generic drugs (down from 44% in 2018). This downward progression was scheduled to conclude in 2020, when enrollees will pay just 25% for the cost all of their drugs while in the donut hole. The Bipartisan Budget Act of 2018 (BBA) accelerated the schedule for brand-name drugs, effectively closing the donut hole for brand-name drugs one year ahead of schedule.
You do not need to do anything to get the discounts. They will automatically be applied at the pharmacy.

Fewer than 5% of Medicare beneficiaries make it out of the donut hole, according to the National Council on Aging. But those whose drug costs exceed their drug plan's "catastrophic" limits would be responsible for the greater of 5%, or $3.40 of the cost of generic drugs in 2019 and $8.50 for brand-name drugs.

The consumer shift to generics and the closing of the donut hole are having a positive impact on planning for health care costs in retirement. The overall health care inflation rate in retirement is now projected at 4.22%, down from last year's 5.47% projection, according to HealthView Services' 2018 Retirement Healthcare Costs Data report released two weeks ago.

As a result of the slowing of drug-cost inflation, total lifetime retirement health care expenses for an average healthy 65-year-old couple, whose average life expectancy is 87 for men and 89 for women, are projected to be $363,946 in today's dollars. That is down from $404,253 in HealthView's 2017 report.

The cost estimates include Medicare Part B and Part D premiums, supplemental Medigap insurance, dental insurance, co-pays and out-of-pocket costs for medical care and prescriptions. It also includes costs for out-of-pocket dental, hearing and vision care not covered by Medicare. The estimates do not include long-term care costs.

2. **There are new Medicare surcharge income brackets for the wealthy**

The good news on prescription drug costs extends to Part D income related Medicare surcharges (IRMAA) for 2019, which are expected to decrease by about 5% for individuals earning incomes between $85,000 – $500,000 and couples earning $170,000 – $750,000.

But the good news on lower projected drug costs is tempered by the broader trend of ever-larger portions of health care costs being shifted to retirees, particularly higher-income individuals, as a result of recent legislative changes.

For example, the elimination of certain Social Security claiming strategies a few years ago will reduce potential lifetime benefits for a healthy 58-year-old couple by $37,000 in today's dollars, leaving less guaranteed income to cover future health care costs.

In addition, the Bipartisan Budget Act of 2018 added a new top tier to the Medicare surcharge brackets (IRMAA) for Part B and Part D premiums for high-income beneficiaries starting in 2019. As opposed to the five surcharge tiers applied over the last several years, a new sixth tier will apply to individuals with MAGI greater than $500,000 and married taxpayers filing jointly with income greater than $750,000.

The BBA also postponed indefinitely the indexing of the surcharge brackets, which was originally planned to begin in 2020.

Fewer than 5% of beneficiaries are subject to IRMAA, which is calculated by the Social Security Administration based on the income data you submitted to the IRS two years earlier. In 2019, for example, the SSA uses your 2017 income and applies the surcharges directly to the premiums being deducted from your Social Security retirement benefit. If your income decreases and puts you into a lower bracket in 2018, then your surcharge could go down in the following effective year, 2020, and so on from year to year.

The 2019 IRMAA for Medicare Part D are as follows:

2019 Part B Premiums

	MAGI in 2017		2019	2018
	Single	Joint		
Tier 1	$85,000 or less	$170,000 or less	$135.50	$134.00
	(above may be less if covered by the hold-harmless provision)			
Tier 2	$85,001 to $107,000	$170,001 to $214,000	$189.60	$187.50
Tier 3	$107,001 to $133,500	$214,001 -$267,000	$270.90	$267.90
Tier 4	$133,501 to $160,000	$267,001 to $320,000	$352.20	$348.30
Tier 5	$160,001 to $214,000	$320,001 to $428,000	$433.40	$428.60
Tier 5	$214,000 to $499,000	$428,001 to $749,000	$433.40	$428.60
Tier 6	$500,000 or more	$750,000 or more	$460.50	$428.60

For folks in Tiers 2 & 3 (income from $85,000 to $133,500 single; $170,000 to $267,000 joint), the surcharges are essentially the same as they've been going all the way back to 2011. Tier 4 ($133,500 – $160,000 single; $267,000 – $320,000 joint) was added in 2018 and so the current surcharges represent the most significant increase for taxpayers who fall into these brackets when compared to prior years. Tier 5 now comprises two income brackets ($160,000 – $214,000 and $214,000 – $500,000 single; $320,000 – $428,000 and $428,000 – $750,000 joint). Folks in the lower portion of Tier 5 have faired similarly to those in Tier 4 while folks in the higher income portion of Tier 5 have experienced virtually no change.

The standard Medicare Part B premium is expected to increase slightly, to $135.50 in 2019, from $134.00 in 2018.

Many existing Medicare beneficiaries will continue to pay less than the standard Part B premium due the "hold harmless" provision. Hold harmless protects existing beneficiaries who receive Social Security (and who have their Part B premiums automatically deducted from their monthly benefits check) from experiencing Part B premium increases that are greater than Social Security's annual COLA. When Social Security recipients who are already enrolled in Medicare receive a 2.8% raise, hold harmless prevents Part B premiums for these grandfathered members from rising more than 2.8% — even if the actual inflation was much higher.

Monthly Part B premiums for 2019 (and 2018 for comparison) are as follows:

2019 Part B Premiums

MAGI in 2017		2019	2018
Single	Joint		
$85,000 or less	$170,000 or less	$135.50	$134.00
(above may be less if covered by the hold-harmless provision)			
$85,001 to $107,000	$170,001 to $214,000	$189.60	$187.50
$107,001 to $133,500	$214,001 -$267,000	$270.90	$267.90
$133,501 to $160,000	$267,001 to $320,000	$352.20	$348.30
$160,001 to $214,000	$320,001 to $428,000	$433.40	$428.60
$214,000 to $499,000	$428,001 to $749,000	$433.40	$428.60
$500,000 or more	$750,000 or more	$460.50	$428.60

As with Part D, Part B premiums are based on your income from two years prior.

Deductibles will also go up in 2019. The deductible for Medicare Part A, which covers hospital services, will increase from $1,360 in 2018 to $1,364 in 2019. The deductible for Medicare Part B, which covers physician and outpatient services, will increase by $2, from $183 in 2018, to $185 in 2019. The Part D deductible for prescription drugs increases from $405 in 2018 to $415 in 2019.

3. **Record Medicare Advantage growth expected**

About one-third of Medicare beneficiaries are enrolled in privately-administered Medicare Advantage plans that often offer additional benefits at a lower cost. With about 10,000 baby boomers aging into the Medicare population daily, enrollment in Medicare Advantage plans has been growing and is expected to continue for years to come. For 2019, CMS expects the number of Medicare Advantage plan choices nationally to increase by nearly 20%, to 3,700, from about 3,100 in 2018.

There's a lot to like about MA plans, including a maximum annual out-of-pocket expense for traditional Part A (hospital insurance) and Part B (outpatient services) coverage, along with the ability to roll dental, hearing, and vision coverage into your plan. Traditional Medicare doesn't offer these coverage options, and there is no maximum annual out-of-pocket expense.

CMS expects premiums for Medicare Advantage plans to decrease by 6% on average in 2019, to $28 per month, down from $29.81 this year. When you enroll in Medicare Advantage, you continue to pay premiums (and any IRMAA surcharges) for your Medicare Part B benefits. Some Medicare Advantage plans charge a monthly premium on top of your Part B premium and some do not.

Medicare Advantage members typically do not need Medigap insurance and they may or may not cover prescription drug coverage (most do and you can enroll in Part D separately when a plan does not). Premiums vary widely from insurance company to insurance company and from plan to plan, so it is important to shop around and compare before deciding on a policy. Insurance companies also set their own Medicare Advantage deductibles, which can similarly vary widely from plan to plan and company to company. Co-payments and co-insurance, as well as out-of-pocket maximums also vary among carrier and plans. It's also important to note that some Medicare Advantage plans require you to stay within a specific network of doctors, hospitals and health care providers so you'll need to familiarize yourself with the plan's network restrictions.

Final Thoughts

Your cash flow may be particularly impacted by rising health care costs in retirement. To lessen the impact, you could consider setting aside a portion of your investment accounts, that won't impact your overall spending, to be tapped in the event of higher than expected health care costs occur.

Any funds accumulated in a Health Savings Account (HSA) could serve this purpose and, if you are younger than 65, then an HSA may be a good vehicle to invest dollars for future health care expenses, such as your Medicare Premiums and deductibles, co-pays and coinsurance amounts, prescription drugs, dental and vision expenses, as well as long term care insurance premiums.

On an ongoing basis, it's also important to consider the impact of year to year cash flow on your taxable income. Delaying income or managing taxable income to lessen the impact of Medicare Part B and Part D's Income Related Monthly Adjustment Amount may help. Strategies like using qualified charitable distributions for any unneeded IRA minimum distributions may also serve to limit your taxable income.

By proactively planning for the effects of health care costs to your retirement spending, the impact of rising health care costs may be reduced.

Please reach out to Robb or Andrew, 724-940-6321, with questions on your plan and consider engaging us in a conversation about your retirement cash flow if you haven't already.

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