

The Cost of Medicare During Retirement

This document takes a deeper dive into the potential costs of Medicare under various income scenarios. It also provides some additional detail on the various enrollment periods available and how they apply to the various parts of Medicare.

Wealth Planning Department
Baird Private Wealth Management

February 2024

There are two primary influences on the cost of Medicare for an individual. The first of these is when the retiree applies for coverage. Eligible Medicare participants can apply for coverage during any of their specific enrollment periods. Enrollment periods are available at different times and are based on a person's age, health and employment (for either the person or the person's spouse). There are 4 different enrollment periods:

- Initial Enrollment Period
- General Enrollment Period
- Fall Open Enrollment Period
- Special Enrollment Period

The primary influence on the cost of Medicare is a variety of demographic information. This information includes their work history, current income level, age, health status, the specific Medicare plan(s) selected and the year in which an individual applies for Medicare. When looking at the total cost of Medicare, there are three main components of expense:

- Premiums
- Deductibles
- Co-Insurance Charges

In addition to the core costs, a person may also incur a late enrollment penalty that will increase the costs of Medicare for either a limited period (Part A) or for the person's lifetime (Parts B and/or D). Late enrollment penalties occur when a person fails to enroll in Medicare during their initial enrollment period and does not qualify for a Special Enrollment Period, or they fail to enroll during their Special Enrollment Period, if eligible.

Below is a summary of the three core costs, the late enrollment penalties and the four enrollment periods for original Medicare, which is comprised of Parts A, B, and D. It should be noted that the costs, enrollment periods and late enrollment penalties for Medicare Advantage plans, an alternative to traditional Medicare, and Medicare Supplement plans, also known as Medigap, are not discussed below. Medicare Advantage Plans and Medigap plans should be evaluated to see how they might be of value to you. Because costs vary so widely based on each state's offerings and your personal circumstances, it is very difficult to analyze them on an "average" basis, which is why they are not discussed in this piece.

The Cost of Medicare During Retirement, *continued*

As indicated in the table below, if your modified adjusted gross income (MAGI) is above a certain amount, you may be required to pay an Income Related Monthly Adjustment Amount (IRMAA) in addition to your Part B or Part D premium. Medicare uses the MAGI reported on your IRS tax return from 2 years ago as this is the most recent tax return the IRS receives from the Social Security office. If you expect that your income will decrease for any reason, an appeal may be filed with the Social Security office.

2024 Monthly Medicare Premiums (Part A, B and D) per Person ¹							
2022 Modified Adjusted Gross Income (AGI + Tax Exempt Income)			Quarters of Medicare Covered Employment	Part A Premium	Part B Premium	Part D Premium	Total Monthly Premium
Single	Married Filing Jointly	Married Filing Separately					
≤ \$103,000	≤ \$206,000	≤ \$103,000	< 30	\$505.00	\$174.70 ²	\$48.00	\$727.70 ⁴
			≥ 30 < 40	\$278.00			\$500.70 ⁴
			≥ 40	\$0.00			\$222.70 ⁴
\$103,000 \$129,000	\$206,001 \$258,000	n/a	< 30	\$505.00	\$244.60	\$60.90	\$810.50
			≥ 30 < 40	\$278.00			\$583.50
			≥ 40	\$0.00			\$305.50
\$129,001 \$161,000	\$258,001 \$322,000	n/a	< 30	\$505.00	\$349.40	\$81.30	\$935.70
			≥ 30 < 40	\$278.00			\$708.70
			≥ 40	\$0.00			\$430.70
\$161,001 \$193,000	\$322,001 \$386,000	n/a	< 30	\$505.00	\$454.20	\$101.80	\$1,061.00
			≥ 30 < 40	\$278.00			\$834.00
			≥ 40	\$0.00			\$556.00
\$193,001 \$499,999	\$386,001 \$749,999	\$103,001 \$397,000	< 30	\$505.00	\$559.00	\$122.20	\$1,186.20
			≥ 30 < 40	\$278.00			\$959.20
			≥ 40	\$0.00			\$681.20
≥ \$500,000	≥ \$750,000	≥ \$397,001	< 30	\$505.00	\$594.00	\$129.00	\$1,228.00
			≥ 30 < 40	\$278.00			\$1,001.00
			≥ 40	\$0.00			\$723.00

Note: In addition to the above, a Medicare Supplement or Advantage plan should also be purchased to cover other out of pocket costs. The potential premium cost will vary widely, depending on where you live and the plan you chose.

¹ Assumes person is not benefiting from the Hold Harmless provision in 2024. Less than 5% of Part B enrollees per year are subject to the hold harmless provision and will pay less than the full monthly premium of \$174.70 in 2024.

² Premium if not held harmless in 2023.

³ US weighted average premium, Source: The Kaiser Family Foundation's *Medicare Part D: A First Look at Prescription Drug Plans in 2023 (Figure 4)*. Premiums can vary widely depending on the plan selected.

⁴ Assumes individual is NOT held harmless in 2024.

The Cost of Medicare During Retirement, *continued*

2024 Annual Medicare Deductibles (Part A, B and D) per Person

Part A Deductible	Part B Deductible	Part D Deductible	Total Annual Deductible
\$1,632 ¹	\$240	\$545 ²	\$2,417 ³

¹ The Part A deductible applies to each benefit period. A benefit period begins on the day you're admitted to the hospital and ends when you've been out of the hospital for 60 days in a row. It is possible to pay multiple deductibles in a single calendar year.

² Deductibles can vary depending on Medicare drug plan selected. No plan deductible may exceed this amount.

³ The total annual deductible assumes only one Part A deductible is incurred for the year. The maximum annual deductible a person could pay in any given year is \$9,336. Hitting this amount would require payment of six Part A deductibles due to having six different benefit periods.

2024 Co-Insurance Charges (Part A, B and D) per Person

Part A Hospital Co-Insurance		Part A Skilled Nursing Co-Insurance	
Days	Paid by Insured	Days	Paid by Insured
1-60	\$0	1-20	\$0
61-90	\$400	21-100	\$200
91-150	\$800	101+	100%
151+	100%		
Part B Assigned*		Part B Unassigned*	
20% of Medicare Approved Rate		20% of Medicare Approved Rate plus the balance of actual charge (maximum of 15% for a total of 35%)	
Part D Phases of Coverage		Part D Cost Coverage	
Annual Deductible¹		Insured pays 100% of negotiated price of covered prescription drugs, until deductible is met (maximum of \$545)	
Initial Coverage		Plan pays portion of covered prescription drugs; Insured pays either copayment (set dollar amount) or coinsurance (percentage of drug's cost), until covered drug costs paid by both plan and insured total \$5,030	
Coverage Gap ("Donut Hole")		Insured pays 25% of covered brand name and generic drugs, until total out-of-pocket costs on covered drugs reaches \$8,000 ²	
Catastrophic Coverage		Insured pays greater of 5% of the drug costs or \$9.85 co-pay on brand name drugs (\$3.95 co-pay on generic drugs)	

* Assignment means that your doctor, provider or supplier agrees to accept the Medicare-approved amount as full payment for covered services.

**If assignment is not accepted, costs could be higher. You may have to pay the entire charge at the time of service. Medicare will then bill you for your share of the charge. The provider can charge you more than the Medicare-approved amount, but there is a limit called "the limiting charge." The provider can only charge you up to 15% over the amount that non-participating providers are paid. Non-participating providers are paid 95% of the Medicare-approved fee schedule amount. The limiting charge applies only to certain Medicare-covered services and does not apply to some supplies and durable medical equipment.

¹ Varies depending on plan selected. Amounts shown are federally mandated maximum amounts

² Out-of-pocket costs for covered drugs includes only the amount the insured and manufacturer paid. It does not include the amount paid by the plan.

The Cost of Medicare During Retirement, *continued*

Premium Penalties (Part A, Part B and Part D)

Medicare	Percentage	Period	Calculated On	Penalty Length
Part A ¹	10%	Per Year	Base Premium Amount	Two times the # of years someone was eligible but did not enroll ²
Part B	10%	Per Year ³	Base Premium Amount (pre-income test)	Lifetime
Part D	1%	Per Month	Base Premium Amount (pre-income test)	Lifetime

¹ Only applies to individuals that are not eligible for premium-free Part A.

² For example, if a person enrolls in Part A after 2 years of eligibility, then the premium penalty will last for 4 years.

³ The Penalty applies for every full year. Months in excess of a full 12-month period are not counted. For example, if a person enrolls in Part B after 32 months, the penalty period will be two years because there are two full 12-month cycles. The remaining 6 months falls off and are not considered in the penalty calculation. If late enrollment occurs within one year of eligibility, there is no penalty.

Initial Enrollment Period (Part A, Part B and Part D)

Enrollment Month	Coverage Start Date ^{1, 2, 3, 4}
3 Months Prior to 65 th Birthday Month	The Month of 65 th Birthday
2 Months Prior to 65 th Birthday Month	The Month of 65 th Birthday
1 Month Prior to 65 th Birthday Month	The Month of 65 th Birthday
Month of 65 th Birthday	1 Month After 65 th Birthday Month
1 Month After 65 th Birthday Month	3 Months After 65 th Birthday Month
2 Months After 65 th Birthday Month	5 Months After 65 th Birthday Month
3 Months After 65 th Birthday Month	6 Months After 65 th Birthday Month

¹ Coverage starts on the first day of the month.

² Special Rule: If a person's birthday is on 1st of the month, then the Initial Enrollment Period is moved up one month and the Coverage Start Date is 1st day of previous month.

³ Part B Exemption: Current workers and spouses of current workers who are covered by a comprehensive employer group health plan through an employer with 20 or more employees may not need to enroll in Medicare during the Initial Enrollment Period and may be eligible for a Special Enrollment Period.

⁴ Part D Exemption: Individuals who have a prescription drug plan that is considered creditable coverage may be eligible for a Special Enrollment Period.

General Enrollment Period (Part A and Part B)

Enrollment Months	Coverage Start Date ^{1, 2}
January 1 st – March 31 st	July 1 st

¹ Enrollment during the General Enrollment Period may lead to late enrollment penalties, resulting in higher premium payments. The late enrollment penalties vary, depending on which part of Medicare someone is enrolling in.

² These rules may not apply if you are switching *from* Medicare Advantage or *to* Medicare Advantage.

The Cost of Medicare During Retirement, *continued*

Fall Open Enrollment Period (Part D)

Enrollment Date	Coverage Start Date ^{1, 2}
October 15 th – December 7 th	January 1 st

¹ Enrollment during the Fall Open Enrollment Period may lead to late enrollment penalties, resulting in higher premium payments. The late enrollment penalties vary, depending on which part of Medicare someone is enrolling in.

² These rules may not apply if you are switching from a Medicare Advantage Drug Plan or to Medicare Advantage Drug Plan.

Special Enrollment Period (Part A, Part B and Part D)

Eligible Applicants ^{1 2}			Enrollment ³		Coverage Start Date ³
Part A	Part B	Part D	Begins	Ends	
				Parts A & B	Part D
		Individuals who have purchased prescription drug coverage that is considered "creditable".	The month the coverage ends		
		A person chooses to enroll in an employer or union sponsored Medicare Drug Plan.	The same period of time when the employer allows the employee to make changes to the employee's group health care coverage	8 months after the month in which coverage ends	63 days after the month coverage ends

¹ The table above is reflective of the most common reasons for a Special Enrollment Period (SEP).

² This list is not a complete list. There are 18 reasons that establish a SEP for Medicare Advantage and Part D plans. For a complete list and breakdown of the reasons an individual might qualify for a Special Enrollment Period (SEP) for Part D and Advantage plans, please go to http://www.medicareinteractive.org/uploadedDocuments/mi_extra/SEP-Chart.pdf. For additional information on Part B SEPs, please go to <http://www.medicarerights.org/PartB-Enrollment-Toolkit/PartB-Special-Enrollment-Period.pdf>.

³ The length of the Special Enrollment Period (SEP) and the coverage start date depend on the reason for the SEP.