

If you're nearing age 65, here's what you should know about Medicare. And no, it's not free

After paying into Medicare through payroll withholdings at work for many years, some people approach their eligibility age of 65 with a misconception that their coverage will be free.

In reality, Medicare comes with a variety of expenses — including premiums, copays and deductibles. High earners pay more for certain premiums, and there's no out-of-pocket maximum.

“I'd say a full third of people we talk to, who are just starting to do their research, are surprised — some are appalled and flabbergasted — that they have to pay anything for Medicare,” said Danielle Roberts, co-founder of insurance firm Boomer Benefits in Fort Worth, Texas.

“The ‘Medicare for all’ conversation might contribute to that, because consumers hear ‘free, free, free’ and assume Medicare is already free,” she said.

While Congress begins wading through various bills that aim to overhaul the nation's health-care system — including a “Medicare for All” version in both the House and Senate that would come with no premiums, copays or deductibles — it's important to know that the existing Medicare program begins costing you when you enroll. And if you fail to sign up on time, you could pay a life-lasting penalty.

Each day, about 10,000 baby boomers turn 65. Fidelity Investments estimates that the average male-female couple will spend a whopping \$285,000 on health care from that age on.

And, that's just a starting point. Things that are not covered by Medicare — dental, basic vision, over-the-counter medicines, long-term care — would be on top of that.

This makes figuring out your Medicare coverage a key part of managing your expenses. Here's what you need to know.

The cost

As long as you have at least a 10-year work history, you pay no premiums for Medicare Part A, which covers hospital stays, skilled nursing, hospice and some home health services. However, it has a deductible of \$1,364 per benefit period, along with some caps on benefits.

Part B — which covers outpatient care and medical supplies — has a standard monthly premium of \$135.50 this year, although higher earners pay more (see chart below). It also comes with a \$185 deductible (for 2019). After it's met, you typically pay 20 percent of covered services.

Cost of Medicare Part B premiums

Those parts of Medicare don't cover prescriptions. That's where a Part D drug plan comes in.

You can get a standalone plan to use alongside original Medicare. Or, you can sign up for an Advantage Plan (Part C), which typically includes prescription drug coverage. If you go this route, your Parts A and B benefits also will be delivered via the insurance company offering the Advantage Plan.

The average cost for Part D coverage in 2019 is \$32.50 per month, according to the Centers for Medicare and Medicaid Services, although high earners pay extra for their premiums (see chart below). The deductible for 2019 is \$415.

If you fail to sign up for Medicare when you first qualify for coverage and you change your mind later, you could face life-lasting penalties, which would make your monthly premiums higher.

Some people with low incomes qualify for programs that reduce their Medicare-related costs. There's extra help for prescription drug coverage, and some state-run savings programs help with copays, coinsurance, deductibles and premiums.

Avoiding life-lasting penalties

If you tapped your Social Security benefits before age 65, you'll automatically be signed up for original Medicare (unless you live in Puerto Rico).

“About a month or two before you turn 65, you'll be automatically enrolled, and your card will just show up in the mail,” Roberts said.

In this situation, you'll see your Social Security check reduced by the cost of the Part B premium.

If you haven't yet tapped Social Security, the burden is on you to sign up. In that case, you get a seven-month enrollment period that starts three months before your birthday month and ends three months after that.

Penalties if you don't enroll

If you fail to sign up for Part B when you're supposed to, you'll face a 10 percent penalty for each year that you should have been enrolled. The amount gets tacked on to your monthly premium.

While Part D prescription coverage is optional, the penalty for not enrolling when you were first eligible is 1 percent for every month that you could have been signed up — unless you have qualifying coverage through an employer's plan.

“We advise people even if they don't take medicine right now, at least sign up for the cheapest drug plan just so you don't face a penalty,” Roberts said. “And if something bad happens, you're making sure you aren't caught with no coverage.”

Coverage gaps in Medicare

Be sure to think about how you'll pay for the things Medicare doesn't cover. For instance, it generally doesn't cover dental work and routine vision or hearing care. Same goes for long-term care, cosmetic procedures and — for the jet-setters — medical care overseas.

Many people decide to pair original Medicare with a supplemental policy — called Medigap — to help cover out-of-pocket costs such as deductibles and coinsurance. You cannot, however, pair a Medigap policy with an Advantage Plan.

If you end up choosing an Advantage Plan, there's a good chance limited coverage for dental and vision will be included.

For long-term care coverage, some people consider purchasing insurance specifically designed to cover those expenses.

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