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Medicare Enrollment Options for 2014-15

A summary of what you need to know.

Key Medicare enrollment periods are approaching. This fall and winter, there are three periods in which Medicare beneficiaries can either enroll or disenroll in forms of coverage.

**** Oct. 15-Dec. 7: Open enrollment period.*** This is when you can exit Original Medicare (Part A & B) for a Medicare Advantage Plan (Part C) and change your prescription drug coverage (Part D). You can also get out of a Part C plan and go back to Part A & B during this period, although you will certainly want a Medicare Supplement (Medigap policy) in place before you make such a move. (In most cases, that means having to pass underwriting.)[1]

**** Dec. 8: Annual enrollment period begins for 5-star plans.*** As you probably know, Part C and Part D plans are assigned ratings. Beginning December 8, 2014 and ending November 30, 2015, a window opens for you to enroll in a 5-star Part C or Part D plan. You can do this once per 365 days. How do you find the 5-star plans? Visit www.medicare.gov/find-a-plan.[2]

**** Jan. 1-Feb. 14, 2015: Disenrollment period.*** If you join a Part C plan in late 2014 and decide you want to leave it, you can do so within this window of time and go back to Original Medicare (Part A & B) with a stand-alone Prescription Drug Plan (Part D). Again, having a Medigap policy before making such a switch is only prudent.[1]

Do you have to confirm Medicare enrollment at the health insurance marketplace? No. If you have Original Medicare or a Medicare Advantage plan through an HMO or PPO, you are covered under the Affordable Care Act. If you need to make changes to your Medicare coverage, you don't need to go to the health insurance marketplace to do so. (For the record, you can't buy any Medicare plan through the marketplace.)[3]

The ACA has enhanced Medicare benefits. It gives Medicare recipients in the "donut hole" avenues to brand-name prescription drug discounts, and recipients may now take advantage of free preventive benefits, cancer screenings and an annual wellness visit.[3]

Should you get Medigap coverage if you have Part A & B? This third-party health insurance may save you money over time by picking up co-payments and deductibles not covered by Part A & B, but a Part C plan provides more comprehensive coverage than Medigap does. *(continued on page 2)*

What You Need To Know About Your First RMD

When you reach age 70½, the IRS instructs you to start making withdrawals from your Traditional IRA(s). These IRA withdrawals are also called Required Minimum Distributions (RMDs). You will make them annually from now on.[1]

If you fail to take your annual RMD or take out less than what is required, the IRS will notice. You will not only owe income taxes on the amount not withdrawn, you will owe 50% more. (The 50% penalty can be waived if you can show the IRS that the shortfall resulted from a "reasonable error" instead of negligence.)[1]

Many IRA owners have questions about the options and rules related to their initial RMDs, so let's answer a few.

How does the IRS define age 70½? Its definition is pretty straightforward. If your 70th birthday occurs in the first half of a year, you turn 70½ within that calendar year. If your 70th birthday occurs in the second half of a year, you turn 70½ during the subsequent calendar year.[2]

Your initial RMD has to be taken by April 1 of the year after you turn 70½. All the RMDs you take in subsequent years must be taken by December 31 of each year.[3]

So, if you turned 70 during the first six months of 2014, you will be 70½ by the end of 2014 and you must take your first RMD by April 1, 2015. If you turn 70 in the second half of 2014, then you will be 70½ in 2015 and you don't need to take that initial RMD until April 1, 2016.[2]

Is waiting until April 1 of the following year to take my first RMD a bad idea? The IRS allows you three extra months to take your first RMD, but it isn't necessarily doing you a favor. Your initial RMD is taxable in the year it is taken. If you postpone it into the following year, then the taxable portions of both your first RMD *and* your second RMD must be reported as income on your federal tax return for that following year.[2]

An example: James and his wife Stephanie file jointly, and they earn $73,800 in 2014 (the upper limit of the 15% federal tax bracket). James turns 70½ in 2014, but he decides *(continued on page 2)*

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Today's Medigap policies don't include prescription drug coverage, and they won't pay for long-term care, dental or vision care, or hearing aids or glasses. If you want or need Medigap coverage, you can evaluate policies using Medicare's Personal Plan Finder at Medicare.gov.[4]

What should you look for in a Part C plan? Scrutinize the out-of-pocket spending limit, the copays and the co-insurance. Attractively low premiums might not tell you the whole story about the value of a Part C plan. Also, how inclusive is the plan network? Does it include hospitals you would choose and the physicians that now treat you?

Medicare's website will determine the best Part D plan for you. Enter your medications and the website will go to work. Each Part D plan has its own formulary (list of approved drugs), categorized into higher and lower "tiers" by cost. Formularies do change; if a drug you take drops off of one, that Part D plan has to give you 60 days of notice (or alternately, written notice of the change when you get a refill with a 60-day supply of the medication).[5]

Every fall, Medicare plans mail out Annual Notice of Change (ANOC) letters to their plan members. Use this notice to determine if your current plan is still right for you and your medical care needs. If you don't receive such a letter by September, contact your plan.[6]

How expensive will Part D coverage be next year? In April, The Centers for Medicare and Medicaid Services (CMS) issued the finalized 2015 Standard Benefit Model Plan parameters. (The definition of "Standard Benefit Model Plan" = the minimum allowable Part D coverage.) Under those parameters, the initial deductible for standard Part D prescription drug coverage will go up $10 to $320 next year. After total prescription drug costs surpass $320, you'll pay 25% of total prescription costs between $310-2,960. You'll be in the "donut hole" between $2,960-4,700 next year (versus $2,850-4,550 for 2014). Next year, Part D enrollees will get a 55% discount on the total cost of brand-name drugs they buy while in the donut hole. Should your total prescription drug costs exceed $4,700 in 2015, you'll be eligible for catastrophic coverage, leaving you on the hook for just 5% of drug costs above that level.[7]

The 2015 monthly premiums for Part C and standard Part D plans are likely to approximate those of 2014. The Centers for Medicare & Medicaid Services projects average monthly premiums of $32.60 for a Part C plan in 2014 and $31 for a standard Part D plan.[8]

Citations.

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to put off his first RMD until April 1, 2015. Bad idea: this means that he will have to take two RMDs before 2015 ends. So his taxable income jumps in 2015 as a result of the dual RMDs, and it pushes them into a higher tax bracket for 2015. The lesson: if you will be 70½ by the time 2014 ends, take your initial RMD by the end of 2014 – it might save you thousands in taxes to do so.[4]

How do I calculate my first RMD? IRS Publication 590 is your resource. You calculate it using IRS life expectancy tables and your IRA balance on December 31 of the previous year. For that matter, if you Google "how to calculate your RMD" you will see links to RMD worksheets at irs.gov and free RMD calculators provided by the Financial Industry Regulatory Authority (FINRA), Kiplinger, Bankrate and others.[2,5]

If your spouse is at least 10 years younger than you and happens to be designated as the sole beneficiary for one or more IRAs you own, you should refer to Publication 590 instead of a calculator; the calculator may tell you that the RMD is larger than it actually is.[6]

If you have your IRA with one of the big investment firms, it might calculate your RMD for you and offer to route the amount into another account that you specify. Unless you state otherwise, it will withhold taxes on the amount of the RMD as required by law and give you and the IRS a 1099-R form recording the income distribution.[2,5]

When I take my RMD, do I have to withdraw the whole amount? No. You can also take it in smaller, successive withdrawals. Your IRA custodian may be able to schedule them for you.[3]

What if I have multiple traditional IRAs? You then figure out your total RMD by adding up the total of all of your traditional IRA balances on December 31 of the prior year. This total is the basis for the RMD calculation. You can take your RMD from a single IRA or multiple IRAs.[1]

What if I have a Roth IRA? If you are the original owner of that Roth IRA, you don't have to take any RMDs. Only inherited Roth IRAs require RMDs.[2]

It doesn't pay to wait. At the end of 2013, Fidelity Investments found that 14% of IRA owners required to take their first RMD hadn't yet done so – they were putting it off until early 2014. Another 40% had withdrawn less than the required amount by December 31. Avoid their behaviors, if you can: when it comes to your initial RMD, procrastination can invite higher-than-normal taxes and a risk of forgetting the deadline.[2]

Citations.

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