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What to Consider Before Enrolling in Medicare B (Part 2)

Posted By Dennis Damp On January 2, 2014 @ 2:15 am In BENEFITS / INSURANCE,ESTATE PLANNING,FINANCE / TIP,SOCIAL SECURITY / MEDICARE,SURVIVOR INFORMATION | Comments Disabled

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My last article titled *Medicare and FEHB Options – What Will You Do When You Turn 65?* [2], part 1 of this 3 part series, introduced Medicare Part A and general information you need to know to apply. This article will help you understand Part B and how it impacts your FEHB benefits and costs. The final article of this series discusses ways to evaluate lower cost FEHB plans that you may wish to consider after signing up for Medicare.

Medicare B

Medicare B (Medical Insurance) that covers physician and outpatient care requires more thought because all must pay an income adjusted monthly premium for coverage. If you don't take Part B at first eligibility (at 65 if retired and not covered under a working spouse or new employer plan; or within 8 months of post 65 retirement or loss of coverage under a working spouse after 65) there is a 10% penalty on the current year premium addedfor each year you delay enrollment.

If you are 65 or over and still employed by the federal government or are a 65 year old retiree that has health care coverage through your new employer or you are covered under a *working spouse exemption*, you can delay applying for Part B without penalty and that makes sense for many. You can delay taking Part B without penalty if you switch FEHB coverage [3] to a federally employed spouse to keep the benefit premiums non-taxable and delay without penalty for the 65 year old retiree's Part B enrollment. Unfortunately retiree's FEHB premiums are considered taxable income unlike active federal employees.

Many retirees work at another job or start businesses after they leave federal service. Federal retirees can also delay taking Part B without penalty if they are covered under a *working spouse exemption* or while working for other employers that provide primary healthcare coverage where the FEHB becomes secondary.You have to evaluate the costs to see if accepting insurance from your new employer would reduce your costs. If you start your own business or work for another company that doesn't provide primary health insurance you will be assessed a penalty if you don't take Medicare B at age 65.

TriCare For Life

Ann Ozuna, a retired Personnel Management Specialist, our HR Forum Host [4], and founder of www.TheFederalRetirementLady.com [5] states "If you are retired military or a military spouse and have TriCare you must sign up for Medicare Part B in the 3 months before turning 65 in order to continue with **TriCare for life**. TriCare participants are able to suspend their FEHB enrollment [6] if they wish after retiring from federal service; federal employees can't suspend FEHB coverage while still working.

The time you had with TriCare counts towards the 5 years of FEHB coverage that participants must have to carry FEHB coverage into retirement and you must be enrolled in a FEHB plan at retirement to be able to suspend it. If you choose to stay with TriCare and suspend FEHB participation as a civilian retiree, you can sign back up for FEHB during any subsequent open season should you need private insurance coverage. This would be desirable if health care providers are not taking new Medicare/TriCare patients when you move to a new location or otherwise lose your doctor."

Part B Premiums & Modified Adjusted Gross Income (MAGI) Impact

The cost for part B is determined by your Modified Adjusted Gross Income (MAGI). The modification adds any tax free income that you earned to your standard adjusted gross income tax that is listed on line 37 of your IRS 1040 form. Part B monthly premiums are divided into five income threshold levels and for 2014 start at $104.90 for individuals with a MAGI of $85,000 or less or for married couples with a MAGI of $170,000 or less and go to as high as $335.70 per month for individuals with a MAGI above $214,000 or married couples with a MAGI above $428,000. You can view 2014 Medicare costs online [7] for all 5 Part B income threshold levels. The cost sheet also includes what a person would have to pay for Part A if they weren't eligible for free coverage and the costs for Part D prescription drug coverage if elected.

CAUTION: Your Part B premiums are determined annually from income statistics that the IRS provides to Medicare. If your modified adjusted gross income as reported on your **IRS tax return from 2 years ago** is above a certain amount as indicated above, you will pay a higher Part B premium. Review tax returns back two years to determine what your adjusted gross income was and then add in any tax free interest you earned to determine your MAGI and what your monthly premium will be. If for example you converted all or part of your TSP or another retirement account to a ROTH two years ago your adjusted gross income will increase by that amount and this could push you into a higher Part B premium for the first year.

Modified Adjusted Gross Income includes capital gains, taxable interest, tax-exempt interest, dividends, annuity income, wages, business income, and IRA distributions. When you start drawing from your THRIFT account, take a one-time lump sum withdrawal, cash in stocks or bonds that have appreciated in value, or convert to a ROTH you may end up with a higher part B premium payment the following year.

The question remains**; why pay for Medicare B if your FEHB providers must still cover you under their plan without penalty?** Most apply for Medicare Part B because the majority of plans waive all of the deductable, coinsurance and copayments except for prescription drugs for those who sign up for both A and B coverage. Even if you and your spouse are generally in good health you never know what the future holds.

Another factor to consider is that if you wait say 3 years and then apply you will pay a 30% monthly premium penalty for life that adds up fast. Plus you can only sign up after age 65 during

Medicare open season, January 1 – March 31, and your coverage doesn't start until the first day of July! When you sign up 3 months before your 65th birthday your coverage begins the month you turn 65. The uncertainty that surrounds the Affordable Health Care Act [8] and the impact that will have on our FEHB benefits is another consideration. The Legislative branch of government has already been forced out of the FEHB program and into local exchanges.

Most retirees sign up for the original Medicare plans Part A and B that allow members to see any doctor, specialist, or hospital that accepts Medicare. Even if you have the Blue Cross Blue Shield Basic plan that doesn't pay for services if performed out-of-network Medicare would still pay their share. Another consideration is that many plans catastrophic maximum expenses and payments for certain services are capped and Medicare can fill the gap. Check out your plan's out-of-pocket catastrophic protection to assess the potential costs that you might incur if you don't sign up for Part B.