

Making “Medigap” work for you

Medicare is the federal government’s principal health care insurance program for people age 65 and over. But with all its deductibles, copayments, and coverage exclusions, Medicare pays for only about half of the medical costs of America’s elderly. There is, however, a way to meet these expenses: A so-called "Medigap" insurance policy can cover the balance of costs not covered by Medicare.

By the numbers

- Medicare pays for only about **half** of the medical costs of America’s elderly.
- There are **10** standard Medigap benefit packages.
- The Medigap policy guide on Medicare’s Web site is **92** pages long. (www.medicare.gov)

The 10 Medigap packages

By law, insurance companies may sell only Medigap policies that fall into one of 10 standard benefit packages. These range from basic coverage to the most comprehensive coverage. The packages are identified by the letter A for the most basic coverage through J for the most comprehensive and expensive.

Each plan offers a different mix of benefits, allowing purchasers to choose the combination that is right for them. And each plan package is the same across insurance companies. Thus, a C package from one insurer will be identical to a C package offered by another. However, costs can vary substantially.

All Medigap policies must provide at least the following core benefits, all of which are included in plan A (dollar figures are for 2003):

- \$210 per day coinsurance for days 61 to 90 of a hospital stay

- \$420 per day coinsurance for days 91-150 of a hospital stay
 - all hospital approved costs from day 151 through 365
 - the cost of the first three pints of blood not covered by Medicare
 - the 20% coinsurance for Part B medical charges
- Plans B through J may provide a combination of eight other areas of coverage on top of these basic benefits, including
- **the coinsurance for days 21 to 100 in a skilled nursing facility** (this coverage is included in Medigap plans C through J)
 - **the deductible for inpatient hospital care** (Medicare Part A — included in plans B through J)
 - **the deductible for medical services** (Medicare Part B — included in plans C, F, and J)

continued

Key points

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| <ul style="list-style-type: none"> • A Medigap policy can cover costs not covered by Medicare. | <ul style="list-style-type: none"> • Take the time to study Medigap plan packages, and choose the one that’s best for you. | <ul style="list-style-type: none"> • Costs of Medigap policies can vary substantially, so make sure to shop around. |
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- **limited coverage for medical emergencies during foreign travel** (included in plans C through J)
- **limited coverage for personal care services** (such as bathing, eating, and dressing) delivered to a patient recovering at home. These services must be in conjunction with Medicare-covered skilled home health care visits following an illness, injury, or surgery, and the annual maximum is \$1,600 (included in plans D, G, I, and J).
- **Part B balance billing.** Some medical providers do not accept the Medicare rate as payment in full. “Balance bill” beneficiaries for additional amounts can be no more than 15% higher than the Medicare payment rate. (Plan G pays 80% of balance billing; plans F, I, and J cover 100% of these charges.)
- **outpatient prescription drug coverage.** Basic coverage (offered in plans H and I) covers 50% of outpatient prescription drug charges after you pay a \$250 deductible, up to a maximum of \$1,250 in each year. Extended coverage (offered only in plan J) gives the same coverage, but the yearly maximum is \$3,000.
- **preventive medical care.** This benefit pays for health care screening and some other preventive health services not covered by Medicare. However, this coverage will pay only up to \$120 per year, which is about the same as what this benefit adds to the cost of a policy (included in plans E and J).

In addition, plans F and J offer a high-deductible option that requires the beneficiary to pay \$1,650 (in 2003) before receiving Medigap coverage.

Note: States may authorize the sale of the basic policy package and any number of the other nine approved combinations of benefits. Therefore, there may be fewer than 10 options to choose from in your state.

The gaps in Medigap

Medigap policies do not fill all the gaps in Medicare coverage. Among the gaps they fail to bridge:

- skilled care in a nursing home beyond the first 100 days or custodial nursing home care at any time (for coverage of this type, you must either purchase long-term care insurance or qualify for Medicaid coverage.)
- vision care and eyeglasses
- hearing aids
- dental care
- private-duty nursing
- unlimited prescription drug coverage

(Vision care, eyeglasses, dental care, and hearing aids may be covered if treatment or equipment is needed as the result of an injury.)

When to apply for Medigap coverage

A Medicare recipient cannot be denied a Medigap policy if he or she applies for one during the six-month Medigap open enrollment period. This period starts on the first day of the month in which the applicant is both age 65 or older and enrolled in Medicare Part B.

Once the six-month open enrollment period starts, it can't be changed. For this reason, if you or your spouse already has group health coverage based on employment and don't need Medigap right away, you may want to delay enrolling in Medicare Part B until you turn 65.

If you apply for a Medigap policy after your open enrollment period has ended, the Medigap insurance company can reject your application.

Preexisting conditions

A preexisting condition is a health problem you had before the date a new insurance policy starts. In some cases, a Medigap insurance company can refuse to cover a health problem for up to six months if the problem was diagnosed or treated during the six months before the policy started.

However, if you buy a policy during your Medigap open enrollment period and you had at least six months of previous health coverage, the Medigap insurer cannot make you wait for coverage of a preexisting condition.

Medigap and Medicare managed care

You don't need to buy a Medigap policy if you are in a Medicare managed care plan. These plans already fill many of the gaps in Medicare coverage that Medigap policies are intended to close. In fact, it is illegal for anyone to sell you a Medigap policy if they know you are in one of these plans.

But one risk of enrolling in Medicare managed care is that when you leave you may not be eligible for the Medigap policy you had before you shifted to Medicare managed care. When you return to regular Medicare, you are only guaranteed the right to buy a Medigap policy designated A, B, C, or F, and none of these policy types offers a prescription drug plan.

However, insurers cannot refuse coverage for even the more generous Medigap policies provided certain conditions are met:

- The Medigap policy you dropped is still being sold by the same insurance company; and
- This was the first time you had ever been enrolled in any kind of Medicare managed care plan; and
- You leave the managed care plan within 12 months of joining the plan; and
- You apply for your previous Medigap policy no later than 63 days after coverage from your managed care plan terminates.

Before you disenroll from your managed care plan, make sure the Medigap policy you had is still available from the original insurer.

Medigap purchasing tips

A 2001 study by the General Accounting Office found that it pays to shop around for a policy. Premiums vary widely from state to state, and within states as well. For example, researchers found that in Texas a 65-year-old consumer could pay anywhere from \$300 to \$1,683

per year for plan A, depending on the insurer. A 65-year-old applicant in Ohio, meanwhile, could pay anywhere from \$996 to \$1,944 per year for plan F coverage.

One key to price shopping is understanding that companies calculate annual premiums in one of three ways:

- **issue age.** The premium is established when you buy the policy and does not rise as the years go by.
- **attained age.** The premium increases automatically as you grow older. These plans may appear to be less expensive initially, but they may cost considerably more as the policyholder ages.
- **no age rating.** A few companies charge one premium, regardless of the policyholder's age. This type of policy may be less costly for people over age 75.

Also, some policies offer discounts to couples, nonsmokers, or women.

Resources

MFS Heritage Planning's Medicare map

Ask your investment professional for a copy, or print it off our Web site at mfs.com.

www.medicare.gov

The Medicare program's official Web site offers a tool called the Medicare Personal Plan Finder that can help you compare Medigap programs available in your area.

Choosing a Medigap Policy

Medicare's invaluable 92-page "2003 Guide to Health Insurance for People with Medicare" can help you select the best Medigap policy for your needs. The guide can be downloaded from www.medicare.gov.

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional, or insurance agent. Before making any financial commitment regarding the issues discussed here, consult with the appropriate professional.



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