

Medicare Basics: Structure, Coverage, and Benefits

Get a solid foundation in how Medicare actually works. This course covers the core structure of the program, what each part does, and what Medicare does and doesn't cover. Whether you're advising clients approaching retirement or simply want to speak confidently about Medicare, this course gives you the essential background to understand the system from the ground up. It's the ideal starting point for tax and financial professionals who want to add real value when clients start asking Medicare questions.

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify common concerns about Medicare.
- Identify the type of coverage offered by Medicare Part A and Part B.

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Publication Date: March 2026

TABLE OF CONTENTS

CHAPTER

01

The Nuts And Bolts Of Medicare: What It Is And How It Works 5

1.01 Addressing Some Upfront Questions 5

1.02 Coming To Terms With The Abcs (And D) Of Medicare 8

1.03 Recognizing That You Have Choices And Must Make Timely Decisions.
13

Test Your Knowledge..... 14

CHAPTER

02

Spelling Out What Medicare Covers (A Lot, But Not Everything) 19

2.01 Understanding What Part A And Part B Cover 19

2.02 Knowing What Part D Covers 32

2.03 The Gaps: Discovering What Medicare Doesn'T Cover..... 37

2.04 Distinguishing When Coverage Comes With Limits 41

Test Your Knowledge..... 45

Final Exam Copy..... 67

Glossary..... 50

Index

Chapter 1: THE NUTS AND BOLTS OF MEDICARE: WHAT IT IS AND HOW IT WORKS

Chapter Objective

After completing this chapter, you should be able to:

- Identify common concerns about Medicare.

Medicare is a federal government insurance system that helps 66 million seniors and people with disabilities pay for their healthcare. It's the only truly national healthcare program in the United States — meaning that it's available regardless of your income, the state of your health, or where you live nationwide — and it has been enduringly popular since it began in 1966.

Yet Medicare works like no other insurance you may have known in the past. To avoid total confusion, you're wise to gain at least a broad understanding of how the program is put together and how its rules may affect you personally.

This chapter provides an overview of the program: addressing common concerns about how Medicare is different from other types of health insurance; describing the four parts of Medicare coverage (A, B, C, and D); and providing a checklist for the decisions that you have to make in choosing among the coverage options that Medicare offers.

Tip

This stuff is basic information aimed primarily at people who are new to the program. (You can find more details of benefits and costs in later chapters.)

ADDRESSING SOME UPFRONT QUESTIONS

When the prospect of becoming a Medicare beneficiary looms on the horizon, you suddenly become aware — if you're like most people — of how little you know about the program. And even if you think you know, can you be sure that the information you have is accurate? Based on questions I've received, I can tell you that a lot of perceptions about Medicare are way off base; quite often, they're gleaned from the internet or even mass emails that are deliberately designed to spread misleading information and scare seniors.

If you've had health insurance in the past, especially from an employer, you may be nervous about how Medicare coverage compares with it. So before I examine how Medicare actually works later in this chapter, I want to tackle some of the concerns people frequently raise about the program:

- **As a government-run system, will Medicare give me inferior care?** No (or at least, not inherently). The federal government runs and regulates Medicare and also largely pays for the medical services you use. Even so, those actual services are almost wholly private. The doctors you go to are not government employees; the hospitals and laboratories that provide services to you are not government-owned. Instead, they're free to enter or not enter into contracts with Medicare as they choose. Those who accept you as a Medicare patient are the same kind of independent, private practitioners that you would've seen for diagnosis and treatment before coming into Medicare.
- **Will Medicare allow me fewer choices than I have now?** No. In fact, the reverse may be true. If you've had health insurance from a private employer, for example, you probably had only two or three plans to choose from each year. In contrast, Medicare offers a choice between the original program (in which you can go to any doctor or other provider in the United States that accepts Medicare patients) and a variety of private Medicare Advantage health plans, which are likely similar to health plans you may have known in the past. Depending on where you live, you may be overwhelmed by the number of options; in some areas, the average beneficiary may be able to choose from as many as 43 Medicare Advantage plans. Also, there are an average of 21 Part D plans available in each state that offer Medicare prescription drug coverage. (I explain Medicare Advantage and Part D plans, and how they differ from the original program, in the next section.)
- **Will my health issues and pre-existing medical conditions work against me?** *Current* and past health problems don't bar anybody from Medicare coverage or cause anybody to pay higher premiums or co-pays than somebody who is in perfect health. That kind of discrimination, which has been common in the past in private health insurance, has never existed in Medicare. The one *exception* is that people with advanced kidney failure can't enroll in a Medicare Advantage health plan; however, they still receive coverage for the appropriate care — regular dialysis or a kidney transplant — under the *traditional Medicare* program. (For the record: A history of smoking, alcohol use, or obesity doesn't increase rates either.)
- **Will Medicare be less expensive than the insurance I have now?** Medicare *isn't* free. Just like other insurance, it requires monthly premiums, deductibles, and co-pays that you're responsible for paying unless you qualify for a low-income program or have extra insurance that covers these costs (see Chapter 2 of course 81452E for details). However, you need to consider the alternatives. Without Medicare, most older and disabled people wouldn't be able to find affordable insurance on the open market.

Compared to most employer insurance (which as a whole covers younger and healthier people), Medicare is reasonably priced. In 2026, Medicare Part B premiums cost \$202.90 per month per person, whereas, according to the Kaiser Family Foundation's 2025 survey of employer health benefits, workers' monthly contributions to employer insurance averaged \$120 for a single person and \$570 for a family of two or more. Still, this isn't an apples-to-apples comparison; many employees pay more than these averages for health benefits, and Medicare beneficiaries usually pay extra for drug coverage, while those with higher incomes pay higher Part B premiums than the standard premiums. Medicare Part A, which covers hospital and nursing care, is free for most people who paid (or have spouses who paid) Medicare taxes long enough while they were working — generally at least 10 years. If you don't qualify for premium-free Part A, you might be able to purchase it.

- **Will I pay a large deductible before getting Medicare coverage?** Medicare does have some deductibles, but they're relatively small compared with the ones many people pay in high-deductible health plans that are sponsored by employers or bought through the 2010 Patient Protection and ACA (commonly known as the Affordable Care Act or Obamacare) or on the open insurance market. (I examine deductibles, along with co-pays and other Medicare costs, in detail in Chapter 1 of course 81452E.)
- **Will my out-of-pocket expenses be capped in Medicare?** Not necessarily. Original Medicare sets no limit on the costs you pay out-of-pocket during a year, although you may buy Medigap insurance to cover those costs (see Chapter 2 of course 81452E). But all Medicare Advantage plans are required by law to set caps on these expenses (up to \$9,250 per year in 2026). In the Part D program, after you've spent a certain amount out-of-pocket on your prescription drugs in a year, you qualify for *catastrophic coverage* that greatly lowers your costs for the remainder of the calendar year. In 2026, people with Part D will have annual out-of-pocket drug costs capped at \$2,100.
- **Do I have to sign up for Medicare again every year?** No; your coverage just rolls over from year to year unless you decide to change it. But you do have the opportunity to change your coverage if you want to during the *open enrollment* period that runs from October 15 to December 7 each year. During this time, you can switch from original Medicare to a Medicare Advantage plan (or vice versa), from one Medicare Advantage plan to another, or from one Part D prescription drug plan to another, as explained in Chapter 2 of course 81457E.
- **Will Medicare cover my younger spouse or other dependents?** No. Family coverage doesn't exist in Medicare — not for spouses, dependent children, or other family members. Each person must wait until age 65 to join the program unless they qualify through disability at a younger age, as explained in Chapter 1 of course 81453E. Also, if you and your spouse are both in Medicare, each of you must pay premiums separately and in full unless you

receive government assistance to help pay for them. Medicare doesn't give price breaks for married couples, even in its private Medicare Advantage health plans and Part D drug plans.

- **Will Medicare coverage be cut off when I grow old?** No! Medicare coverage is based on medical necessity, not age. So if you need a hip replacement when you're in your 90s or even over 100, Medicare picks up most of the cost in the usual way.

Remember

The idea of Medicare rationing care and denying coverage for people over a certain age has been spread through mass emails for years. No Medicare regulation limits care for people based on their age.

COMING TO TERMS WITH THE ABCS (AND D) OF MEDICARE

Do you really need to know the details of what Parts A, B, C, and D stand for? Doesn't Medicare just pay its share of your bills and that's it? Well, not entirely. Medicare's architecture is more than a tad weird, but each of its building blocks determines the coverage you get and what you pay.

Besides that, however, is the simple fact that making sense of the information in the rest of this course is difficult unless you understand what Parts A, B, C, and D actually mean. The following sections break down the basics.

Part A

Medicare Part A is usually described as *hospital insurance* — a term originally coined to distinguish it from medical insurance (Part B). But the phrase is misleading. "Hospital insurance" sounds as though Part A covers your entire bill if you're admitted to a hospital, but it doesn't work that way. The services you receive from doctors, surgeons, or anesthesiologists while you're in the hospital are billed separately and are covered under Part B. And you don't even have to be hospitalized to get services under Part A, because some are provided in settings outside the hospital or even in your own home.

Remember

A more accurate way to think of Part A is as coverage primarily for *nursing care*. It helps pay for the following:

- The services of professional nurses when you're admitted to a hospital or a *skilled nursing facility* (such as a nursing home or rehab center) for short-term stays or when you qualify for home health services or *hospice care* in your own home
- A semiprivate room in the hospital or nursing facility
- All meals provided directly by the hospital or nursing facility
- Other services provided directly by the hospital or nursing facility, including lab tests, prescription drugs, medical appliances and supplies, and rehabilitation therapy
- All services provided by a home health agency if you qualify for continuing care at home, as explained in Chapter 2
- All services provided by a hospice program if you choose to stop treatment for a terminal illness, as explained in Chapter 2

The vast majority of people in Medicare are eligible for Part A services without paying any premiums for it. That's because Part A is essentially paid for in advance by the Medicare payroll taxes that you or your spouse contributed from every paycheck while working. I explain the details of how that setup works — and your options if you don't qualify for premium-free Part A — in Chapter 1 of course 81453E.

But of course Part A services themselves aren't free. You still pay deductibles and co-payments for specific services. I itemize these costs in Chapter 1 of course 81452E and explain how you may be able to lower them in Chapter 2 of course 81452E. I also provide more *detailed* information on certain Part A coverage issues in Chapter 2, Chapter 1 of course 81457E.

Part B

Remember

Many people in Medicare never need to go into the hospital, but almost everybody sees a doctor or needs diagnostic screenings and lab tests sooner or later. That's where Part B — known as *medical insurance* — comes in. The wide range of services it covers includes the following:

- Approved medical and surgical services from any doctor who accepts Medicare patients, whether those services are provided in a doctor's office, in a hospital, in a long-term-care facility, or at home
- Diagnostic and lab tests done outside hospitals and nursing facilities
- Preventive services such as flu shots, mammograms, screenings for depression and diabetes, and so on, many of which are free
- Some medical equipment and supplies (for example, wheelchairs, walkers, oxygen, diabetic supplies, and units of blood)
- Some outpatient hospital treatment received in an emergency room, clinic, or ambulatory surgical unit
- Some inpatient care in cases where patients are placed under observation in the hospital instead of being formally admitted
- Inpatient prescription drugs given in a hospital or doctor's office, usually by injection (such as chemotherapy drugs for cancer)
- Some coverage for *physical*, occupational, and speech therapies
- Outpatient mental health care
- Second opinions for non-emergency surgery in some circumstances
- Approved home health services not covered by Part A
- Ambulance or air rescue service in circumstances where any other kind of transportation would endanger the patient's health
- Free counseling to help curb obesity, smoking, or alcohol abuse

You must pay a monthly premium to receive Part B services unless your income is low enough to qualify you for assistance from your state. Most people pay the standard Part B premium, which is determined each year by a formula set by law (\$202.90 in 2026). If your income is over a certain level, however, you're required to pay more.

You also pay a share of the cost of most Part B services. In original Medicare, this amount is almost always 20 percent of the Medicare-approved cost. Medicare Advantage health plans charge different amounts — usually flat dollar co-pays for each service. I go into detail about the out-of-pocket costs for Part B in Chapter 1 of course 81452E, and I explain ways to lower them in Chapter 2 of course 81452E.