PacificCPE

COURSE
81452A

Medicare Costs and Out-of-Pocket Expense Strategies

Understanding what Medicare beneficiaries actually pay—and how to reduce those costs—is critical knowledge for advisors working with retirees. This course breaks down premiums, deductibles, copayments, and coinsurance across Medicare's various parts, then explores practical strategies for lowering out-of-pocket expenses. From supplemental coverage options to cost-sharing rules, you'll gain the tools to help clients plan more effectively for healthcare costs in retirement and avoid common financial surprises.

CREDIT HOURS 2 | FIELD OF STUDY BUSINESS | EXAM QUESTIONS 10

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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 specifics about Medicare premiums, deductibles, and co-payments.
- Identify specifics about Medigap supplemental insurance.

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Chapter 1: UNDERSTANDING WHAT YOU PAY TOWARD YOUR COSTS IN MEDICARE

Chapter Objective

After completing this chapter, you should be able to:

- Identify specifics about Medicare premiums, deductibles, and co-payments.

What will Medicare cost you, and how much will it save you? That's the killer question for people just coming into the program. In a way, the answer really depends on where you started out. Did you have low-cost insurance from an employer when you were working? Then Medicare may seem expensive in comparison. Were you paying through the nose for an individual policy that didn't actually provide much coverage? Or perhaps you just couldn't find insurance that you could afford? In those cases, Medicare probably seems like the promised land.

This point bears repeating: Medicare isn't free. Some people do think that the Medicare payroll taxes they pay while working will net them totally free healthcare after they hit 65. Sorry, not so. In fact, on average, Medicare is said to cover only about half of beneficiaries' total healthcare costs if they have no extra insurance.

In this chapter, I explain the way in which all the various costs of Medicare — premiums, deductibles, and co-payments — may hit your pocket in each of the parts of Medicare. I also go into detail about the higher-income premiums for Part B and Part D because you need to know whether they affect you and, if so, by how much. (However, you may be able to lower some of those costs, a topic I delve into in Chapter 2.) Finally, I explain why some people may pay different premiums than others in certain years and the instances when you need to pay Medicare taxes while receiving Medicare benefits.

BONING UP ON PREMIUMS, DEDUCTIBLES, AND CO-PAYMENTS

Remember

What Medicare pays toward your medical care is *coverage*. What you contribute out of your own pocket can be several kinds of expenses: premiums, deductibles, and co-payments. If you've had U.S.-style health insurance before, you know exactly what these terms mean. If not, here's a quick primer:

- **Premium:** A *premium* is an amount you pay each month to receive coverage. In other words, it's your entrance ticket to the program.
- **Deductible:** A *deductible* is an amount you pay before coverage kicks in. You can think of it as a kind of down payment before Medicare starts picking up the tab.
- **Co-payment:** This amount is what you pay as your share of the cost of each service you receive. Strictly speaking, *co-pays* are fixed dollar amounts (such as $20), whereas *coinsurance* is the correct term when your share is a percentage of the cost (such as 20 percent). But because *coinsurance* is too wonky for words, I use *co-pays* in these pages.

If you had insurance in the past, you probably paid a single premium for all your healthcare and a single deductible for the whole year (maybe a hefty one if you were in a high-deductible plan), with co-pays for each service. But Medicare, of course, is divided into three parts, each with its own costs and charges. The following sections explain each set of costs under Part A, Part B, Part D, and Medicare Advantage (*Part C*) plans. Finally, Figure 3-1 shows the costs for Parts A, B, and D at a glance. *Note:* The costs in the chart are for people enrolled in original Medicare plus stand-alone Part D drug plans. Medicare Advantage plan costs are different and vary among plans.

FIGURE 3-1: 2026 PREMIUMS, DEDUCTIBLES, AND CO-PAYMENTS AT A GLANCE.

	Part A	Part B	Part D
Premiums	None if you or your spouse has earned 40 or more work credits through paying payroll taxes at work. $311 a month if you or your spouse has 30-39 credits. $565 a month if you or your spouse has 0-29 credits.	For most people: $202.90 a month depending on circumstances. If you're liable for higher-income surcharges, you pay premiums of between $284.10 and $689.90 a month, depending on income level.	Premiums vary among Part D plans, from about $0 to $200 a month, with most in the $39 range. If you're liable for higher-income premiums, you pay an additional surcharge of between $14.50 and $91.00 a month, depending on income level.
Deductible	$1,736 for each hospital benefit period	Annual deductible: $283.	Annual deductible: $0 to $615, depending on the plan.

	Part A	Part B	Part D
Co-payments	Hospital stays: **Days 1-60:** No co-pays after deductible is met. **Days 61-90:** $434 a day in each benefit period. **Days 91-150:** $868 a day for each lifetime reserve day. **After 150 day**: You pay all costs. Skilled nursing facility: **Days 1-20:** No co-pays. **Days 21-100:** $217 a day in each benefit period. **After 100 days:** You pay all costs.	None for most preventive services. 20 percent of the Medicare-approved cost for other services, unless you have other insurance that covers those costs.	Co-pays depend on what your plan charges for each drug and which phase of coverage you're in at any given point of the year.

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Part A costs

Part A covers nursing care, room, and meals in a hospital or *skilled nursing facility* (such as a rehab center or a nursing home); home health services; and hospice care. The following sections describe the possible out-of-pocket costs that you may pay for those services. **Note:** The costs in the following sections apply if you're enrolled in the original Medicare program. They'll likely be different if you're in a Medicare Advantage health plan such as an HMO or a PPO — see the later section "Medicare Advantage costs."

Premiums

You don't pay premiums for Part A coverage if you or your spouse paid enough in Medicare payroll taxes to earn at least 40 *credits* (sometimes called *quarters*) while working. If you don't have enough

credits through your own or your spouse's work record, you can buy Part A services by paying premiums for them: in 2026, $311 a month if you have 30 to 39 credits and $565 if you have fewer than 30 credits. These amounts tend to go up or down a little each year. (I explain work credits in more detail in Chapter 1 of course 81453E.)

Deductible

Part A doesn't have an annual deductible but rather applies a deductible to each *hospital benefit period*. This unit of time begins when you're first admitted to a hospital and ends only when you've been out of the hospital for 60 days. Huh? Yes, this timeline is a weird concept that I explain thoroughly in Chapter 1 of course 81457E. All you need to know here is that the deductible for each hospital benefit period is $1,736 in 2026 (it goes up a little each year) and that after you've met it, Medicare picks up the whole tab for up to 60 days.

Co-payments (hospital and skilled nursing facility)

If you stay in the hospital for more than 60 days in any one benefit period, you're charged a daily co-pay for each day from the 61st to the 90th. In 2026, the co-pay is $434 a day, but this amount increases a little each year. If you still need to remain in the hospital after 90 days, you can choose to draw on some of your lifetime reserve days. These days require a hefty co-pay — $868 a day in 2026 — and they're limited to 60 days for the rest of your life. After these reserve days are exhausted, you must pay full costs.

If you're admitted to a skilled nursing facility (SNF) after being in the hospital for the required 3 days, Medicare picks up the whole SNF tab for the first 20 days, and you pay nothing. After that, you pay a daily co-pay ($217 in 2026) for the next 80 days. If you need to be in the facility longer than 100 days in any one benefit period, you're responsible for the full cost.

Warning

You can't use your lifetime reserve days to extend coverage in an SNF.

Co-payments (home healthcare and hospice care)

If you qualify for home health services (see Chapter 2 of course 81451E), Medicare pays a home health agency for your care; you pay nothing. If you need or want a service that isn't covered under the agency contract, you have to pay for it yourself — either in full or as a regular 20 percent Part B co-pay (see the later section "Part B costs").

If you receive hospice services from a Medicare-approved agency (see Chapter 2 of course 81451E), you pay almost nothing for this care. Two exceptions exist:

- If you need prescription drugs to control the symptoms, such as pain, of your terminal illness, you pay up to $5 per prescription.
- If you need to enter a nursing home for a short time so that your caregiver can catch a break, you're expected to contribute 5 percent of the cost.

Out-of-pocket limits

Medicare places no annual upper limit on your expenses in Part A. But if you have a Medigap policy (which I describe in Chapter 2) or other supplemental insurance, it may cover Part A's hospital deductible and co-pays.

Part B costs

Part B covers doctors' services (in their offices, in hospitals or other facilities, or at your home), outpatient care such as lab tests and screenings, and some medical equipment and supplies. **Note:** The Part B costs described in the following sections apply if you're enrolled in original Medicare. If you're in a Medicare Advantage plan, see the later section "Medicare Advantage costs."

Premiums

All people enrolled in Part B must pay a monthly premium to receive services (unless they're eligible for state assistance, as explained in Chapter 2). In late fall, the federal government announces the Part B premium amount for the following year. In 2026, the standard premium is $202.90 a month. Note that qualifying word: standard. If your income is over a certain level, you pay more. Also, if there is no Social Security cost-of-living adjustment (COLA) in any given year, or only a very small one, you may pay different premiums from some other people. I explain the higher-income surcharge, and the impact of zero or small COLAs in some years later in this chapter.

Deductible and co-payments

In 2026, the annual Part B deductible is $283. The amount usually goes up a little each year and is announced at the same time as the Part B premium. Typically, Medicare pays 80 percent and you pay 20 percent of the Medicare-approved cost of Part B services. Note that you may be charged more than 20 percent if you go to a provider who doesn't accept the Medicare-approved cost as full payment, as I explain in Chapter 3 of course 81456E.

Out-of-pocket limits

In original Medicare, Part B has no upper limit on out-of-pocket expenses. But if you have Medigap supplemental insurance (described in Chapter 2), it covers your Part B co-pays in full or in part, depending on the policy you buy.

Part D costs