

Navigating Medicare Plan Options and Original Medicare

Medicare offers more choices than many beneficiaries realize, and sorting through them can be overwhelming. This course maps out the full landscape of Medicare options and takes a deeper look at Original Medicare—including how prescription drug coverage works under Part D. Professionals advising clients on retirement planning will gain a clearer picture of how plan structures, formularies, and cost-sharing rules affect real-world decisions, making it easier to guide clients toward coverage that fits their needs and budget.

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

- Recognize the differences between traditional Medicare and Medicare Advantage plans.
- Recognize the importance of comparing plans carefully.

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Chapter 1: MAKING SENSE OF MEDICARE'S MANY OPTIONS

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the differences between traditional Medicare and Medicare Advantage plans.

It always amuses me, in a grim kind of way, when I hear politicians talk about Medicare as a “one-size-fits-all” system. Using that tired old phrase is an instant giveaway of their total ignorance of how the program works. Just imagine if Medicare were a one-size-fits-all system. It would be far simpler to navigate and understand, with no need for long explanations. I sure wouldn’t be taking 400-plus pages to untangle it in this course!

But, in fact, Medicare offers many different options. Of course, it’s that range of choice that causes so many people to become utterly baffled and lost in the weeds, with the result that many blindly make decisions that aren’t in their best interests. Nonetheless, choices do allow you to tailor your coverage to your own particular needs as long as you know how to evaluate them.

In this chapter, I explain how Medicare is broadly divided into two completely different systems for delivering your benefits — the original Medicare program and the array of private health plans known collectively as Medicare Advantage (MA). This chapter describes how choosing one or the other of these systems directly determines other options that are available to you and the decisions you must make. I then detail the differences between the two systems and among types of MA plans. Finally, I discuss a question that often perplexes people who are new to Medicare: What is the difference between Medicare Advantage plans and Medigap supplemental insurance?

SEEING THE BIG PICTURE: YOUR STARTING POINT TO NAVIGATING THE MEDICARE MAZE

When you enter a maze, you can’t see the whole structure because of those high hedges hemming you in, but you hope you’ll pick your way through it by trial and error. Yet if you hover over that maze in a helicopter, you can quite clearly see the entrance and the exit and the quickest way connecting the two. Okay, I’m not going to push this analogy any further, but looking at the big picture from the get-go is enormously useful in helping you navigate the Medicare maze more efficiently to where you want to be. That’s what this section aims to do. Here, I explain the consequences of your system choice and compare the systems. I also describe situations when you may not have a choice and when you could be automatically enrolled in a plan without your knowledge.

Understanding the consequences of your choice of system

Remember

Here's a quick summary of how each of the two systems works, very differently, in delivering Medicare benefits:

- **Original Medicare:** This option is the original government system that has been in place since 1966; that's why it's also called traditional Medicare.

It comprises Parts A and B, and it works on a fee-for-service basis. In other words, Medicare directly pays a portion of the costs of any medical service it covers to any provider that accepts Medicare patients. You, the patient, pay a percentage of the cost or, in some cases, a fixed amount for each covered service you receive. Overall, the government contributes subsidies amounting to about 75 percent toward beneficiaries' medical costs.

- **Medicare Advantage (MA):** *Medicare Advantage* is the name used collectively for Medicare's private health plans.

They deliver Medicare benefits in a different way from the original system and are run by Medicare-approved private insurance companies. Medicare pays each plan a monthly amount for each enrollee's medical care, regardless of how much healthcare a person actually uses. You receive your medical benefits through the plan of your choice and pay the charges required by the plan. Because plans vary greatly in their costs and benefits, you need to compare them carefully to pick the one that best suits your needs.

At the outset, though, the key point to understand is this: Choosing either of these systems triggers a mini-cascade of other choices, as the following sections illustrate.

Considerations for choosing one system over the other

If you decide on original Medicare, you must consider

- **Whether you need Part D prescription drug coverage:** If so, you must enroll in a stand-alone Part D drug plan (one that provides only drug coverage), choose your plan from among the 15 to 24 plans offered in your state, and pay a monthly premium. You don't need Part D if you have creditable (equivalent) drug coverage from another source; head to Chapter 2 of course 81451E of course 81453E, Chapter 2 of course 81451E of course 81454E for the lowdown.
- **Whether you want Medigap supplemental insurance:** Medigap pays many of your out-of-pocket expenses in original Medicare. If you want it, you must choose a policy with the set of benefits that you prefer (out of a maximum of ten choices), contact insurance companies that sell that policy in your area for a price quote, and pay the monthly premium required. (I give more details on Medigap in Chapter 2 of course 81451E of

course 81452E, Chapter 2 of course 81451E.) If you decide on Medicare Advantage, you must think about the following:

- **Whether you need Part D prescription drug coverage:** If so, you must choose an MA plan that includes drug coverage in its benefits package. If you have creditable drug coverage from another source, such as the Veterans Affairs (VA) health system, you can choose an MA plan that offers only medical benefits with no drug coverage.
- **Which plan to enroll in:** Where you live determines how many MA plans are available to you. A few rural areas have no MA plans at all. Some big urban areas have 30 plans or more. (**Note:** In 2026, the average beneficiary has access to approximately 39 MA plans for individual enrollment, and approximately 87 percent of all plans include prescription drug coverage). Each plan has its own mix of costs and benefits. Comparing them isn't always an easy process. (Get an explanation for how to do this comparison in Chapter 1 of course 81456E.) But you must choose just one, enroll in it, and pay a monthly premium (in addition to the Part B premium) if one is required.

How soon must you make this first cut? Well, when you first sign up for Medicare Parts A and B, you're automatically enrolled in the original Medicare program; you'll continue to receive your benefits from that program unless you specifically choose to switch to a Medicare Advantage private plan. Similarly, if you're already in either original Medicare or one of the MA private health plans, you remain with that coverage unless you take action to switch. In other words, you make the call.

Remember

You can decide to enroll in an MA plan when you first sign up for Part B, whether that's during your *initial enrollment period* or a special enrollment period, if you want to. Of course, whichever system you choose, your decision isn't set in stone. Regardless of which option you pick to begin with, you're free to switch to the alternative at least once a year during an appropriate enrollment period, as I explain in Chapter 2 of course 81457E.

An important limitation on your choice

You do face one limitation on this otherwise-open choice. What happens if you enroll in a Medicare Advantage plan and then want to return to original Medicare? Can you still buy a Medigap policy with full federal protections — that is, a guaranteed right to buy the policy of your choice, without paying higher premiums based on your current or past health issues? You have that right within six months of enrolling in Part B (as explained in Chapter 2 of course 81452E), but in only a few other circumstances:

- You joined an MA plan as soon as you became eligible for Medicare at 65 and you're still in the first 12 months of being in the plan.

- You dropped a Medigap policy to join an MA plan, it's the first MA plan you've ever been in, and you've been in it for one year or less.
- You move out of your MA plan's service area and decide to switch to original Medicare.
- Your MA plan stops providing services in your area.
- Medicare allows you to drop out of your MA plan after determining that the plan broke the rules or misled you.

Warning

The first two of these situations count as a trial period. The other three describe very specific circumstances. In all other situations, if you drop out of an MA plan and switch to original Medicare, you may still be able to buy a Medigap policy, but you won't get the federal guarantees and protections (especially in regard to pre-existing medical conditions) that are described in detail in Chapter 2 — unless you live in a state that gives similar rights.

Can you suspend a Medigap policy while you are covered by Medicaid or insurance from a current employer? That may be possible in some situations, as explained more in Chapter 2.

Weighing the two systems

So how do original Medicare and Medicare Advantage stack up generally in delivering healthcare? To answer that question, I take a big-picture viewpoint in this section, highlighting a range of issues to consider: overall costs; premiums; co-pays; the long-term stability of costs, benefits, and care; choice of providers and whether care is coordinated; extra benefits; geographical service areas; and quality of care.

Thinking through these issues and applying your personal preferences makes gravitating toward one system over the other easier for you. Then, in the later section “Digging into the Details of Original Medicare versus Medicare Advantage,” you can look at the details of original Medicare and the different types of Medicare Advantage plans to refine your thoughts and settle on the system that works best for you. At that point, you need to get down to the nitty-gritty of comparing individual plans, a process I explain in Chapter 2 (for stand-alone Part D plans and Medigap policies if you go with original Medicare) or Chapter 1 of course 81456E (for Medicare Advantage plans).

Overall costs

On the whole, MA plans offer lower out-of-pocket costs than original Medicare. Certainly, they may provide a lower-cost alternative for people who can't afford Medigap supplemental insurance. Here's how it happens:

- *Managed care plans*, such as HMOs (health maintenance organizations) and PPOs (preferred provider organizations), keep costs relatively low by limiting access to doctors,

hospitals, and other providers within their own provider networks and service areas or by charging enrollees more if they go outside them. They may also require enrollees to ask for prior authorization before covering certain kinds of treatment.

- A change in the law in 2003 allowed Medicare to pay the private plans far more on average for enrollees' care than it pays for people enrolled in the original system. The extra payments allowed the plans to charge enrollees less and/or to offer better benefits than original Medicare.
- MA plans must set an annual limit on their enrollees' total out-of-pocket expenses (deductibles and co-pays) — also a requirement of the Affordable Care Act. The limit is set by law, though individual plans can choose to set a lower cap. Original Medicare has no out-of-pocket limit.

However, Medicare Advantage's private plans may not be the less-expensive option for everyone. Several studies have suggested that people with greater healthcare needs may ultimately pay more for their care in MAs than if they were in original Medicare, though these reports don't reflect recent developments in the law.

Premium costs

Many people in original Medicare pay three monthly premiums — one for Part B, one for prescription drug coverage (Part D), and one for a Medigap supplemental insurance policy. In contrast, most people in Medicare Advantage plans pay at most two premiums — one for Part B and one for the plan itself, which may or may not include Part D drug coverage as well as other supplemental benefits. However, the majority of plans charge no premiums of their own at all, even if they include all those extras.

Co-pay costs

Medicare Advantage plans have traditionally charged fixed-dollar co-pays for doctor visits, which may be less expensive and more convenient than the percentage of the cost (typically 20 percent) that original Medicare charges. A flat co-pay is also more predictable: If your plan charges \$20 this year to see your primary-care doctor, you know in advance that this amount will be your payment for every visit throughout the year; however, you can't be certain what 20 percent means in dollar terms when the total cost on which it's based may fluctuate. Still, recently an increasing number of Medicare Advantage plans have also begun charging percentages of costs for some services rather than flat co-pays — sometimes less than 20 percent and sometimes more.

Stays in the hospital are also charged quite differently under original Medicare and MA plans — but whether one costs more than the other depends mainly on how long your stay is, as detailed in Chapter 1 of course 81456E.

When you're in original Medicare, you can purchase a Medigap supplemental policy that pays your hospital deductible, Part B deductible, and Part B co-pays. This setup not only makes your out-of-pocket costs more predictable but also essentially eradicates them so that you pay nothing or very little. But under Medicare rules, you can't use Medigap to cover out-of-pocket costs if you're enrolled in a Medicare Advantage plan.

Cost and benefit stability

Medicare Advantage plans can change their costs and benefits each calendar year, increasing or reducing them as they choose. Original Medicare is more stable, but it usually increases the Part A and Part B deductibles slightly each year, and the 20 percent *coinsurance* it charges for most Part B services also tends to rise as healthcare costs in general go up. Services that original Medicare covers (and which, by law, MA plans must cover, too) generally don't change much from year to year, although sometimes new ones are added.

Care stability

Warning

Original Medicare is there, year after year. Medicare Advantage plans can choose annually whether to stay in Medicare or withdraw, or whether to enter or exit a particular service area. Occasionally, Medicare doesn't renew a particular plan's contract. If any such changes occur, affected enrollees are notified in advance and can switch to another private plan or to original Medicare, but this change can be a disrupting experience.

Provider choice and care coordination

The main reason people give for choosing or staying in original Medicare is that they can go to any doctor or hospital they please — or, at least, any that accepts Medicare patients, and most providers still do. (However, the shortage of primary-care doctors is having an impact on Medicare, as in other health systems, in some areas. Chapter 3 of course 81456E delves into this further.)

In contrast, the majority of Medicare Advantage plans — those that provide managed care through HMOs — limit the choice of providers to those in their networks and service areas. However, this arrangement may be considered a benefit rather than a restriction if care is properly coordinated.

Because your medical needs are handled and monitored by a single local system, you're more likely to be encouraged to get tests and screenings early enough to prevent serious health problems later on and less likely to be prescribed drugs that may interact badly with each other.

Original Medicare relies on the fee-for-service system and has therefore *never* coordinated care. Nonetheless, that may change in the future. Many studies have shown that properly coordinated