

Understanding medical health care costs for UC retirees in Medicare (February 21, 2013)

Joel E. Dimsdale, M.D.¹
jdimsdale@ucsd.edu

This document was prepared to help University of California retirees understand health care costs. Retiree health care costs are distributed in three main buckets—costs for Medicare, costs for UC medical coverage, and out-of-pocket costs (co-pays, deductibles, etc). For retirement planning, employees and retirees should consider all sets of costs.

1. Medicare:

If you have Medicare, your Part A (in-patient coverage) comes with no costs to you if you qualify for *premium-free* Medicare². The standard Part B (out-patient coverage) cost is ~\$105/month in 2013 and is payable to Social Security. Generally, UC medical plans coordinate the Part D (drug coverage) portion of the Medicare plan with the medical plan. For Medicare Part D (drug coverage), you normally will not incur charges unless you have MAGI >\$85,000, in which case you will pay additional costs.

Many people have their Medicare cost deducted from their Social Security benefit and others are billed directly by Social Security. However, if your Modified Adjusted Gross Income (MAGI) as reported on your IRS tax return from 2 years ago (2011) is >\$85,000, you will incur additional costs, referred to by the Social Security Administration and Medicare as an Income-Related Income Adjustment Amount (IRMAA). These extra MAGI-associated costs can be substantial (see next page).

2. UC Medical Plans coordinated with Medicare

UC offers a number of medical plans, including Medicare-coordinated plans. These plans in essence cover the gaps between Medicare parts A and B. The maximum UC contribution, which is calculated separately for Medicare retirees and pre-Medicare retirees, is based on a weighted average of the gross premiums based on enrollments in the previous year, and takes into account the standard Medicare Part B premium. In 2013, the maximum UC contribution covers 83% (on average) of the gross premium (including the standard Part B premium), provided the retiree is not subject to graduated eligibility³. The maximum UC contribution will decrease over the next few years to 70% for both Medicare and pre-Medicare retirees.

If the maximum UC retiree health contribution (after any reduction for graduated eligibility, if applicable) is greater than the rate for the Medicare-coordinated plan you selected, then the difference is used to reimburse you for all or a portion of the standard Medicare Part B premium. The reimbursement is credited to your monthly pension benefit. The University has no control over the premiums that Medicare charges for Part B coverage. Additionally, due to the timing of Medicare premium announcements, the maximum UC Medicare Part B reimbursement is generally based on the preceding year's

¹ The author acknowledges the many colleagues who have helped develop this document.

² You may qualify through your own work record; or the work record of a spouse, former spouse or deceased spouse, who has worked full time 40 quarters and paid Medicare taxes during that period.

³ Graduated eligibility is determined by date of hire, years of service, and age at retirement. For details see University of California Retirement Handbook.

Medicare Part B premium. Thus, for 2013, the maximum UC Medicare Part B reimbursement is \$99.90, which was the standard Medicare Part B premium for 2012 (as opposed to \$104.90 which is the 2013 part B premium).

The UC retiree health contribution costs are levied to each campus on the basis of projected UC retiree health payments for the year divided by the system-wide UCRP Covered Compensation of all active employees over the same time period. In 2012, the amount charged to each campus was 2.76% of its UCRP Covered Compensation.

The Medicare Part B and Part D rates are greatly influenced by an individual's MAGI. The following table provides the MAGI additional costs for 2013. It is uncertain how much MAGI will increase in subsequent years. For instance, Professor Smith's individual tax returns show a MAGI of \$150,000. Using the table below, one sees that Smith would have a part B monthly charge of \$239.70 (\$104.90 + \$104.90 + \$29.90).

2013 Medicare Part B and Part D Costs (IRMAA)

Income as reported on 2011 IRS Tax Return		
Modified Adjusted Gross Income (MAGI)	Part B monthly premium amount/person	Part D monthly premium amount/person
Individuals with a MAGI of \$85,000 or less Married couples with a MAGI of \$170,000 or less	Standard premium = \$104.90	\$0.00
Individuals with a MAGI above \$85,000 up to \$107,000 Married couples with a MAGI above \$170,000 up to \$214,000	Standard premium + \$42.00	Your plan premium + \$11.60
Individuals with a MAGI above \$107,000 up to \$160,000 Married couples with a MAGI above \$214,000 up to \$320,000	Standard premium + \$104.90	Your plan premium + \$29.90
Individuals with a MAGI above \$160,000 up to \$214,000 Married couples with a MAGI above \$320,000 up to \$428,000	Standard premium + \$167.80	Your plan premium + \$48.30
Individuals with a MAGI above \$214,000 Married couples with a MAGI above \$428,000	Standard premium + \$230.80	Your plan premium + \$66.60