ClearView Wealth Management

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Medicare: An Overview

By Leon Bronfin

As age 65 approaches, few topics are so widely discussed and sometimes misunderstood than Medicare. For many people, understanding Medicare can be complex and confusing.

Enacted in 1965, Medicare is a system of federal health insurance, generally for people 65 years and older, or younger that have certain disabilities. There are four basic parts of Medicare. The first two parts (now often called Original Medicare) are:

> Part A: covers in-patient hospital, skilled nursing facilities, hospice, blood and some related items
>
> Part B: covers doctor and outpatient services

The third part of Medicare is Part D, prescription drug coverage. Enacted in 2006, it authorizes private insurance companies to provide coverage for prescription drugs for people with Medicare.

Finally, in recent years, Part C, the fourth part of Medicare, has become popular for many. Enacted in 1997 and called the Medicare Advantage program, it is offered by private insurance companies and provides a way to combine coverage for Parts A, B and C in a single plan.

For most people, there is no cost to have Part A, as they have paid taxes into the system. Part B has a base monthly premium (currently $104.90) paid to the Government. Additionally, the Part B and Part D premiums are means tested, so those persons having higher income may have to pay an additional means tested adjusted amount. Each person having Part B (unless they have low income assistance and it is paid for them) must pay their Part B premium

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Upcoming Seminars

Thursday, October 16
Tuesday, November 18
Wednesday, December 10

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plus any means tested amounts, in addition to any Medicare insurance premiums payable to a private insurance company.

When a Medicare beneficiary receives services under Medicare, Medicare pays part, but not all of the costs. A portion of the costs (sometimes called the “gap” or “gap costs”) must be paid by the beneficiary as their cost-sharing, in the form of deductibles, copayments and co-insurance amounts. For example, under Part A there is a deductible upon hospital admission and copayments for certain services. Under Part B there is an annual deductible and cost-sharing is generally about 20% of the costs. Most importantly, because there is no cap or ceiling on these cost-sharing amounts a beneficiary must pay when they receive services, potentially they can be very large. This is why people on Medicare traditionally turn to private insurance as a way to limit, reduce or eliminate these costs Medicare does not pay.

Presently, there are two basic types of individual insurance available for persons with Medicare: First, the traditional Supplements or Medigap policies (two names commonly used for the same type of insurance), and second, Part C or the Medicare Advantage Plans.

With a Supplement, depending upon the option selected (in WA there are a number available options lettered A through N) and the amount of premium paid, the insurance company will fill-in the gaps for some, most or all of the costs not paid by Medicare. By law, the Supplements cannot include Part D prescription drug coverage, which must be obtained separately through a stand-alone Part D plan. Part C or the Medicare Advantage Plans work differently than the Supplement Plans. With a Medicare Advantage Plan the insurance company would enter into a contract with the Government to provide, manage, and pay for each member’s Medicare benefits, and in exchange would be compensated by the Government on a fixed monthly basis for each member served. A person joining a Medicare Advantage plan would continue to have Medicare, but would be coded in Medicare’s system as being a Medicare Advantage plan member, with their benefits managed and paid by the insurance company.

In recent years, Part C or the Medicare Advantage plans have become popular, as they generally would include coverage for Part D prescription drugs; have generally lower monthly premiums than the Supplements and stand-alone Part D prescription plans; and can provide some extra benefits not covered under Medicare (examples might include some added coverage for vision or hearing, or an optional dental or health club rider). However, unlike the Supplements which have no network, referral or prior authorization requirements, the Medicare Advantage plans are typically managed care plans. As such, they frequently will have a network of providers that must be used exclusively except in an emergency, require referrals for specialists and prior authorizations for certain services.

Many people on Medicare have a group retiree or employer insurance plan, and are unaware they may be

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able to reduce their premium costs and/or improve their coverage by switching to an individual Medicare insurance plan (Supplement or Medicare Advantage). As always, the costs and coverages should be carefully compared before switching, which can be done at any time during the year.

Hopefully, this general overview provides a basic understanding of Medicare: how it works, why having insurance is important, and the types of individual insurance available. Nonetheless, there's much more to understand about Medicare and Medicare insurance coverage that may apply to you, including (and these are a few topics): specific services Medicare covers and excludes; appeal and grievance rights; prescriptions covered under drug formularies; drug stages and coverage gaps; formulary exceptions; enrollment periods; and late enrollment penalties. As always, having a knowledgeable professional you can turn to for help and input can be extremely important.

Pacific Medicare Insurance and its principal, Leon Bronfin, assists people throughout WA with Medicare insurance plans, including Medicare Supplement, Medicare Advantage and Part D prescription drug plans. He can be contacted at 425-818-9915 or leon@pacificmedicareinsurance.com.

The Return of the Tax-Deferred Exchange

By Robert E. Onnen, Esq., CES

Tax-deferred exchanges are still a viable way to legally avoid taxes on the sale of real estate held for investment or used in a trade or business.

If you sell improved real estate (as opposed to bare land), you will be faced with a 25% tax on all depreciation taken over the life of your ownership. If your gain is greater than your total depreciation, the excess will be taxed as long-term capital gain, currently 20%. If the property is located in a state with a state income tax, you would also be required to pay up to an additional 10 %.

The American Tax Relief Act of 2012 has given taxpayers new reasons to dust off their knowledge of IRC Section 1031 Tax-deferred Exchanges. The first reason would be the increase in the capital gains tax rate from 15% to 20% for many taxpayers. This higher rate applies to individuals with incomes above $400,000 and married couples filing jointly with incomes above $450,000. The second reason is the new 3.8% Medicare Surtax. This new tax applies to "net investment income (NII)." This is a new term and applies to individuals with NII of $200,000 and to married couples with NII of $250,000 and above. Pursuant to IRC Section 1411, NII includes interest, dividends, capital gains, retirement income, income from partnerships, and other forms of "unearned income".

All of these taxes can be legally avoided by utilizing an exchange under Section 1031 of the Internal Revenue Code. A completely successful exchange will follow three guidelines:

1. The fair market value of your replacement property should be equal or greater than the net sales

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price of your relinquished property.

2. You should reinvest all exchange proceeds from your sale into your replacement property.

3. Your replacement property debt (mortgage) should be equal or greater than the mortgage (if any) on your relinquished property.

No taxes will ever be paid on your gains if you leave the property to your heirs because they will receive a stepped-up basis under our current tax laws.

One important decision you will make will be the selection of a qualified intermediary to facilitate your exchange. This is no time for amateurs to handle your funds. You want experience and safety for your hard-earned funds. Do your homework! Ask the intermediary exactly where and how your money will be invested. It should not be co-mingled with other client funds nor be deposited to the general account of the 1031 company. It is your money and must be safe and liquid.

Because of concerns for client fund security, several states have recently passed legislation to regulate the activities of qualified intermediaries. In my home state of Washington, a new law took effect on July 26, 2009. Companies in Washington who facilitate the sale and exchange of properties located in this state must register and meet minimum safety requirements. Among these requirements is a one million dollar fidelity bond or the use of a qualified trust or a qualified escrow. Errors and Omissions insurance or an equivalent deposit of at least $250,000 is also required.

The exchange company must be under the direct management of an attorney, CPA, or a Certified Exchange Specialist. This is where you should insist upon references and financial information on your selected exchange company. Call the references and ask about their individual experiences.

Now you can refocus your attention upon finding a replacement property. It is still a buyers' market in most local economies, so happy hunting!

Rob Onnen received his law degree from the University of Iowa in 1973. He founded the Pioneer 1031 Company in Boise, Idaho in 1993. He has written numerous articles and is a frequent lecturer to attorneys, accountants, and real estate agents. Mr. Onnen holds the designation of Certified Exchange Specialist from the Federation of Exchange Accommodators and has successfully structured over 5,000 exchanges. His toll-free number is 877- 417-1031 and e-mail address is robonnen1031@olypen.com

Thought for the Day

"Financial planning is a process, not a product"

~ Financial Planning Association ~