

# Understanding medical health care costs for UC retirees in Medicare (April 15, 2013)

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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<sup>2</sup>:

If you have Medicare, your Part A (in-patient coverage) comes with no costs to you if you qualify for *premium-free* Medicare<sup>3</sup>. 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 Modified Adjusted Gross Income (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) is above a certain level, you will incur additional charges. The government determines these charges based on your IRS tax return filed 2 years previously. For instance, in tax filing year 2013, the 2011 income threshold was \$85,000. If your income exceeded that amount, 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 eligibility<sup>4</sup>. 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

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<sup>1</sup> The author acknowledges the many colleagues who have helped develop this document.

<sup>2</sup> UC has a useful description of Medicare at:

[http://atyourservice.ucop.edu/forms\\_pubs/checklists\\_factsheets/med\\_factsheet\\_ca.pdf](http://atyourservice.ucop.edu/forms_pubs/checklists_factsheets/med_factsheet_ca.pdf).

<sup>3</sup> 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.

<sup>4</sup> Graduated eligibility is determined by date of hire, years of service, and age at retirement. For details see University of California Retirement Handbook.

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 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	Standard premium + \$230.80	Your plan premium + \$66.60

Married couples with a MAGI above \$428,000		
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## Illustrative Five-Year Projected Costs for UC Medical Coverage

It is difficult to summarize all contingencies. The following analyses pertain to Member only insurance rates for an individual retiree who is eligible for the full UC contribution towards health insurance cost. To simplify it further, the table only provides cost information for Kaiser and Anthem Plus. Furthermore, the table forecasts anticipated costs in the next few years, using anticipated health care premium costs, assumptions about retiree choice of insurance plans, etc. The table does not include any MAGI charges.

The table below provides the projected Medicare retiree contributions under Kaiser and Anthem Plus, based on the expected UC contribution policy (declining 3% per year) and the medical trend rate assumptions from the July 1, 2012 valuation report. These valuation assumptions do not take into consideration the actual 2013 Part B premium rates (\$104.90 for the standard premium), nor other plans available now or in the future. Note that as the contribution percentage declines, Medicare members enrolled in Kaiser are expected to eventually have a net Part B contribution.<sup>5</sup>

	Kaiser					Anthem Plus			
	Max UC Contribution	UC Plan Contribution	UC Part B Contribution (credit back)	Retiree Plan Contribution	Retiree Net Part B Contribution	UC Plan Contribution	UC Part B Contribution (credit back)	Retiree Plan Contribution	Retiree Net Part B Contribution
<b>2013 83% Policy</b>	\$346.72	\$217.93	\$99.90	\$0.00	\$0.00	\$340.23	\$6.49	\$0.00	\$93.41
<b>2014 80% Policy</b>	\$371.65	\$256.07	\$106.89	\$0.00	\$0.00	\$370.85	\$0.80	\$0.00	\$106.09
<b>2015 77% Policy</b>	\$395.25	\$295.76	\$99.49	\$0.00	\$14.67	\$395.25	\$0.00	\$7.12	\$114.16
<b>2016 74% Policy</b>	\$417.38	\$337.16	\$80.22	\$0.00	\$41.48	\$417.38	\$0.00	\$17.18	\$121.70
<b>2017 71% Policy</b>	\$434.87	\$374.25	\$60.62	\$0.00	\$68.87	\$434.87	\$0.00	\$32.28	\$129.48

<sup>5</sup> For instance, row 1 illustrates that UC will contribute up \$346.72/month for individual coverage in 2013. The university pays Kaiser a premium of \$217.93 and adds back into the pension check the monthly part B premium of \$99.90. The retiree pays nothing. For Anthem Plus, the university pays that \$340.23 premium and credits the pension check \$6.49. The retiree does not need to contribute to medical cost. However, the retiree does wind up paying \$93.41 (\$99.90 - \$6.49) for Part B coverage.

## 2013 – Retiree Costs for Part B and Part D and UC Medical

Putting it all together, the following tables illustrate the combined costs of Medicare + MAGI as well as UC coverage. The tables indicate the general principles for retirees enrolled in single-party Medicare with different MAGI for two plans: Anthem Plus and Kaiser. For couples where both members are on Medicare, the MAGI thresholds are doubled.

### Monthly individual premiums for 2013

#### MAGI <\$85000

Plan	Part B	Part D	UC plan	Total (see page 3 for credit back)
Anthem Plus	\$104.90	0	0	\$104.90 - credit back to retiree of (\$6.49)
Kaiser	\$104.90	0	0	\$104.90 - credit back to retiree of (\$99.90)

#### MAGI between \$85,000 and \$107,000

Plan	Part B	Part D	UC plan	Total
Anthem Plus	\$146.90	\$11.60	0	\$158.50 - credit back to retiree of (\$6.49)
Kaiser	\$146.90	\$11.60	0	\$158.50 - credit back to retiree of (\$99.90)

#### MAGI between \$107,000 and \$160,000

Plan	Part B	Part D	UC plan	Total
Anthem Plus	\$209.80	\$29.90	0	\$239.70 - credit back to retiree of (\$6.49)
Kaiser	\$209.80	\$29.90	0	\$239.70 - credit back to retiree of (\$99.90)

#### MAGI between \$160,000 and \$214,000

Plan	Part B	Part D	UC plan	Total
Anthem Plus	\$272.70	\$48.30	0	\$321.00 - credit back to retiree of (\$6.49)
Kaiser	\$272.70	\$48.30	0	\$321.00 - credit back to retiree of (\$99.90)

#### MAGI >\$214,000

Plan	Part B	Part D	UC plan	Total
Anthem Plus	\$335.70	\$66.60	0	\$402.30 - credit back to retiree of (\$6.49)
Kaiser	\$335.70	\$66.60	0	\$402.30 - credit back to retiree of (\$99.90)

### Summary

The tables above illustrate costs for retirees with different MAGI. It is assumed that most faculty members would fall in the first 3 groups, but some longtime highly compensated faculty and/or individuals working after retiring from UC may fall in the final two groups.